ALTERNATIVE USES OF THE UNEMPLOYMENT COMPENSATION TRUST FUNDS TO ASSIST DISLOCATED WORKERS

HEARING

BEFORE THE

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND
UNEMPLOYMENT COMPENSATION

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

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ALTERNATIVE USES OF THE UNEMPLOYMENT COMPENSATION TRUST FUNDS TO ASSIST DISLOCATED WORKERS

TUESDAY, MARCH 18, 1986

House of Representatives,
Committee on Ways and Means,
Subcommittee on Public Assistance and
Unemployment Compensation,
Washington, DC.

The subcommittee met, pursuant to notice, at 12:58 p.m., in room B-318, Rayburn House Office Building, Hon. Harold Ford (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

[For immediate release Thursday, Mar. 6, 1986]

The Honorable Harold Ford (D. Tenn.), Chairman, Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives, Announces a Public Hearing on Alternative Uses of Unemployment Compensation Trust Funds To Assist Dislocated Workers To Be Held on Tuesday, March 18, 1986

The Honorable Harold Ford (D., Tenn.), Chairman, Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means, U.S. House of Representatives, announced today that a public hearing on alternative uses of unemployment compensation trust funds to assist dislocated workers will be held on Tuesday, March 18, 1986, in room B-318 Rayburn House Office Building beginning at 1:00 p.m.

In announcing the hearing, Chairman Ford said, "The purpose of the hearing will be to examine whether or not the unemployment insurance system can be made more responsive to the special needs of dislocated workers. While the unemployment insurance system appears to be doing a good job in helping workers over temporary and relatively short spells of unemployment, I want to examine whether it can better help those workers whose jobs have been permanently lost. These are people who are going to have to change careers and whose spell of unemployment can be expected to last a lot longer than the six months in which they can get unemployment benefits. I want to know what the unemployment insurance system can do differently or do better to help these individuals get back into the work force."

While witnesses are encouraged to address the broad subject of alternative uses of unemployment compensation trust funds, they are asked to specifically comment on the following bills:

H.R. 758 (Mr. Stark), To assist in improving unemployment compensation programs carried out by States.

H.R. 1690 (Mr. Wyden, Mr. Gephardt, Mr. Matsui, et al), To provide for a demonstration program in which a limited number of States would be permitted to provide unemployment compensation to individuals for the purpose of funding self-employment.

H.R. 1947 (Mrs. Kennelly, Mr. Pease, Mr. Clinger, Ms. Oakar, and Mr. Boehlert), To promote training programs for individuals receiving unemployment compensation.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Individuals and organizations interested in presenting oral testimony before the Subcommittee must submit their requests to be heard by telephone to Harriett Lawler [(202) 225-3627] no later than close of business Thursday, March 13, 1986, to be followed by a formal written request to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The Subcommittee staff will notify those scheduled to appear by telephone as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee [(202) 225-1025].

In order to assure the most productive use of the limited amount of time available to question witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 75 copies of their prepared statement to the Subcommittee office, Room B-317 Rayburn House Office Building, at least 24 hours in advance of their scheduled appearance.

Each statement to be presented to the Subcommittee or any written statement submitted for the record must contain the following information:

1. The name, full address, and capacity in which the witness will appear (as well as a telephone number where the witness or a designated representative may be reached);
2. A list of any clients or person, or any organization for whom the witness appears; and
3. A topical outline of summary of comments and recommendations.

WRITTEN STATEMENT IN LIEU OF PERSONAL APPEARANCE

For those who wish to file a written statement for the printed record of the hearing, six copies are required and may be submitted by the close of business Friday, March 21, 1986, to Joseph K. Dowley, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. An additional supply of statements for the printed record may be furnished for distribution to the press and public if supplied to the Subcommittee office, room B-317 Rayburn House Office Building, before the hearing begins.

Chairman **Ford**. The Subcommittee on Public Assistance and Unemployment Compensation will come to order.

The subcommittee has called this public hearing to examine alternative uses of unemployment compensation trust funds to assist dislocated workers. We are delighted to have all of the witnesses who will be appearing and testifying before the subcommittee today. We look forward to your testimony that will be given to the subcommittee.

Today the subcommittee will take testimony on alternative uses of unemployment compensation trust funds to assist dislocated workers. While the unemployment insurance system appears to be doing a good job in helping workers over short spells of unemployment, we want to examine whether it can be a greater help to those workers whose jobs have been permanently lost. These dislocated workers are going to have to change careers. Their spell of unemployment is going to last a lot longer than the 6 months for which they can receive unemployment compensation. And I want to know what the unemployment insurance system can do differently or do better to help these individuals to get back into the work force.

I also want to know what risk is faced in using unemployment insurance funds for anything other than the payment of unemployment benefits. Many State unemployment accounts are beginning to build up significant reserves. While it is tempting to use these moneys for other employment-related activities, we have seen how fast these funds can be depleted in periods of high unemployment. Can our unemployment system be more responsive to the special needs of dislocated workers, while continuing to provide adequate insurance against the temporary layoff? I hope that the testimony today will help us answer that question.

Once again, the Chair would like to welcome all of the witnesses, and our leadoff panel is the Northeast-Midwest Congressional Coalition Task Force on Unemployment Insurance, and we are happy to have Hon. William Clinger, who is from Pennsylvania, who is cochair of the Northeast-Midwest Congressional Coalition. Also joining him will be Congressman Don Pease of Ohio, who is a very distinguished senior member of this subcommittee and one who has been very outspoken and a very able member of this committee and one who has been in the forefront of assistance to dislocated workers.

Mr. Clinger, if you would come on to the witness table, I would like to personally welcome you before the subcommittee and say that our colleague, Mr. Pease, should be arriving very shortly, but we wanted to get the subcommittee started on time today, because of the long list of witnesses and the different panels which we will have.

The Chair would like to recognize you at this time, and as soon as Mr. Pease arrives, I am sure he will join you.

STATEMENT OF HON. WILLIAM F. CLINGER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA, AND COCHAIRMAN, NORTHEAST-MIDWEST CONGRESSIONAL COALITION, TASK FORCE ON UNEMPLOYMENT INSURANCE

Mr. **Clinger**. Well, thank you very much, Mr. Chairman, and there he is.

Chairman **Ford**. There is Mr. Pease. We will bring you right to the witness stand. We are in session.

Mr. Clinger, you are recognized.

Mr. **Clinger**. Thank you, Mr. Chairman. I will defer to my colleague and cochairman of the task force, the Northeast-Midwest Task Force.

Chairman **Ford**. He is the first witness on the list. I had recognized you. But I would have to say once again that he is a very able and senior member of this subcommittee. We will recognize you Mr. Pease as the leadoff witness, as it relates to dislocated workers.

STATEMENT OF HON. DON PEASE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO, AND COCHAIRMAN, NORTHEAST-MIDWEST CONGRESSIONAL COALITION, TASK FORCE ON UNEMPLOYMENT INSURANCE

Mr. **Pease**. Mr. Chairman, thank you very much for this opportunity to testify. I'm sorry to be a few seconds late.

Mr. Clinger and I, as you know, have appeared before the subcommittee before to give joint testimony on behalf of the unemployment task force of the Northeast-Midwest Coalition. We had planned today to recite the testimony in unison, but we didn't have enough time to get together, so we've arranged it so that I'll give a few paragraphs and he'll give a few paragraphs, if that's all right.

Chairman **Ford**. That's fine, Mr. Pease. And the entire text of the testimony will be made a part of the record.

Mr. **Pease**. Well, we are pleased, Mr. Chairman, to have the opportunity to testify before you on the need for reform of our Nation's current unemployment insurance system, in terms of both income maintenance and worker adjustment policies.

We also want to commend you for calling the hearing today on possible new uses for unemployment compensation. Over the past few years, many people have looked for ways to make our venerable unemployment compensation system more responsive to workers and their needs. We think the bills on the agenda today represent some genuine new ideas in the area, and we're glad that this subcommittee is taking the time to give the architects of those proposals a forum for their ideas.

Mr. **Clinger**. And as we await the testimony of these proponents, we want to take this opportunity to remind the subcommittee of what we view as unfinished business. When we agreed to phase out the Federal Supplemental Compensation Program last year, just about a year ago, many members recognized the need for an overhaul of the existing system for providing extended unemployment compensation benefits. And as strong proponents of reform, we believe that an improving economy at that time afforded us an excellent opportunity for reforming the system without having to operate in a crisis atmosphere.

As it turned out, the demise of FSC developed into something of a crisis, and so the enthusiasm for reform faded away.

Mr. Chairman, we should use the opportunity we have in this hearing and at this particular time to undertake a serious and thoughtful revision of our unemployment laws to prepare for whatever economic eventuality we might face in the future. Our hope is that these discussions can lead to passage of comprehensive reform legislation later this year, and we know that this is a goal that you share.

As cochairs of the task force, of the Northeast-Midwest Coalition Task Force on Unemployment Insurance, Congressman Pease and I have testified several times before you, calling for basic reforms in the UI system to make it more reliable for those who depend upon it, more responsive to changes in the economy, and more effective in providing relief and helping put people back to work.

So we would commend you again for the bold action that you took last March when you reported to the full committee comprehensive legislation that would institute many of the reforms in our UI system that we recommended in our testimony at that time.

The bill, as reported by the subcommittee, would have merged the extended benefit program with the Federal Supplemental Compensation Program to form a single, streamlined program of extended benefits for the longer term unemployed. Unfortunately, the bill appears to have died at this juncture, at least temporarily, in the full committee, and we think this hearing can serve as an important impetus for getting it back on track.

Mr. **Pease**. Despite the economic recovery, Mr. Chairman, a number of fundamental problems with the current UI system must be addressed.

For example, the Center on Budget and Policy Priorities has found that in 1985 the percentage of unemployed persons receiving UI benefits fell to the lowest level in the program's history. In an average month last year, fewer than one of every three jobless workers collected benefits. We fear that because no FSC benefits will be available in 1986, unemployment coverage as a percentage of those unemployed will decline even further.

In addition, we must not let the current economic recovery lull us into a false sense of security and reduce our willingness to act. While continued economic growth and low inflation are welcome signs of better times, other economic factors have focused on a sense of uncertainty about the future. A comparison of employment statistics for December 1985—more recent figures came out only this morning—with those for the same month a year earlier show that nonagricultural employment in the Northeast-Midwest region increased by over 900,000, and the national increase was 2.1 million. I remind you that that is over a 1-year period ending in December 1985.

The decline in manufacturing employment continued and was most costly in the Northeast-Midwest region, which lost 205,000 manufacturing jobs in the 12-month period, nearly 70 percent of the total national loss of 305,000 manufacturing jobs.

On the other hand, service employment in the Northeast-Midwest during that time grew by about 443,000 out of the national gain of 918,000.

Mr. **Clinger**. Also, in December, unemployment in the region was 6.7 percent, which was identical to the national average, and down from 7.2 percent a year earlier. However, by February, last month, the national unemployment rate, before seasonal adjustment, was back up to 7.8 percent. Unemployment increased in 10 of the 11 large States for which figures are currently available, and 7 of those States are in the Northeast-Midwest region.

Mr. **Pease**. Furthermore, the Northeast-Midwest region has 50 percent of the Nation's displaced workers. A recent 5-year study by the Bureau of Labor Statistics shows that while the national trend is toward reemployment, the Northeast and Midwest regions account for 57 percent of the displaced workers who are still unemployed, 55 percent of those who have dropped out of the labor force altogether, and only 46 percent of those who have been reemployed.

Mr. **Clinger**. Mr. Chairman, it is because of our concern over these changes in the economy and the inability of the current UI system to address the needs of the long-term unemployed that we again come before you in support of comprehensive reform. The package you put together last March promises significant improvement, but we urge you to act further on the issue, to add substate triggers and training provisions in your legislation.

Adapting the UI system to current realities of prolonged structural unemployment must be a top priority. Reform must not be allowed to die, and we hope this hearing will be a first and important step toward bringing the issue back to the front burner of policy questions this Congress needs to address.

Mr. **Pease**. The bill the subcommittee reported out last March modified H.R. 1072, which we, along with Representatives Stark, Boehlert, and Kaptur, introduced last year, and would make four major changes in the current system of extended compensation for the long-term unemployed.

First, the bill would set up a single, permanent program of extended unemployment compensation, replacing the current EB and recent FSC programs. We believe that one consolidated program of benefits beyond the initial 26 weeks, with one set of criteria instead of two, would make the UI system easier and simpler to implement and understand for both its administrators and its recipients.

The current system, with its confusing triggers, changing eligibility standards, and varying benefit duration periods has caused unnecessary anxiety and frustration for the unemployed, and it is no better for the State officials who have to adapt their own systems to continual change.

This change would also allow for swift and prompt reaction to major economic dislocations, because a permanent program of extended compensation, triggered automatically by a State's unemployment rate, already would be in place. Under such a program, the unemployed would know ahead of time what benefits they were entitled to and how long they would last. This would contrast sharply with our recent history when repeated legislative action, as you well know, was required to provide FSC benefits.

Second, rather than the State eligibility requirements of the current EB program, which dictate that a State is eligible for all or none of the present 13-week benefits period, the bill would set up a system similar to that used in the most recent FSC program. States with the greatest levels of unemployment would be eligible for the greatest number of weeks of benefits.

Mr. CLINGER. Third, Mr. Chairman, the bill no longer would use a State's insured unemployment rate, the IUR, as the sole determinant of eligibility and benefit levels for extended compensation. Instead, it would allow a State to choose between its IUR and its total unemployment rate—that is, the TUR—using whichever measure would result in the greatest number of weeks of benefits.

Unlike the IUR, the TUR is a State's most comprehensive measure of unemployment. It includes all of a State's unemployed, as measured by the Bureau of Labor Statistics in its calculation of joblessness. The IUR, on the other hand, counts as unemployed only those who have received the regular UI benefits. Those receiving extended benefits and, in the past, Federal FSC benefits as well, are omitted from the IUR measure of unemployment.

Because of this, we do not believe the IUR adequately reflects economic distress in those parts of the country suffering the most from long-term unemployment. Indeed, at least partially because of this IUR methodology, only Alaska and Puerto Rico currently are eligible for extended benefits.

Fourth, the financing of the program would be and, we think, should be arranged on a sliding scale, so that as a State's unemployment rate increased, the Federal Government would pay an increasing share of the benefits. This provision is one of the most important components of the legislation that we are promoting. The current EB program, which treats all States that trigger on equally regardless of their unemployment level, is clearly not equitable and, in many cases, limits the effectiveness of the program. Indeed, it can have the perverse effect of driving up spending substantially and increasing payroll taxes and UI debts in those States with the highest levels of unemployment, a situation that exists in my State of Pennsylvania. Thus it can discourage business growth where it is needed most.

The new program also would include in the Federal financing share a sliding scale between FUTA trust fund revenues and the general revenues, so the higher the level of unemployment, the higher the general revenue contribution.

Mr. **Pease**. Mr. Chairman, we also would like to make several suggestions that we believe would improve the bill reported out by the subcommittee last year.

The bill should allow for the use of substate triggers. This proposal is designed to remove the inequities that arise from the use of statewide triggers only. Statewide triggers do not address, and indeed ignore, the fact that areas within a State may suffer from extremely high and prolonged unemployment, even though the State's overall unemployment rate may be below the trigger rate for extended compensation.

At a minimum, the subcommittee should allow for three State demonstration projects using substate triggers. As we envision this program, the States, in conjunction with the Secretary of Labor, would be responsible for defining the substate areas eligible for extended compensation benefits, but they would have great leeway in doing so.

Two requirements would be established. One, the substate areas would have to contain not less than 5 percent of the State's population. And two, if portions of more than one county were included, the counties would have to be contiguous.

In addition, the bill would establish more stringent eligibility standards for substate areas than for the Statewide Extended Compensation Program. The IUR or TUR for a substate area would have to be 1 percentage point higher than the rate in the qualifying State to trigger the same level of benefits.

Mr. **Clinger**. We also believe the system should include incentives for training and retraining, work sharing and job search assistance. In the past, we have used UI simply and exclusively as an income maintenance program for the unemployed.

It is time, in our view, that we also use it as a tool to help unemployed workers find new jobs and to speed their movement back into the workplace. Workers receiving UI should be allowed to participate in retraining programs, and a 1970 Federal law prohibits States from denying UI eligibility to those in training, with the approval of the State, and the Job Training Partnership Act, the JTPA, clearly affirms this policy thrust to combine UI and training.

Yet we have discovered that States vary widely in their administrative practices in this regard. One proposal to encourage greater use of the UI training combination is H.R. 1947 introduced by Representative Kennelly. We are original cosponsors of that bill, along with Representatives Oakar and Boehlert.

Specifically, this bill would give States an incentive to permit unemployed workers to upgrade their skills by allowing unemployment payments made to persons in State-certified work preparation and skill training programs to count toward any interest a State may owe on funds borrowed from the Federal Government to cover UI costs. The approach simultaneously would address two issues: First, the need for retraining the unemployed and the need to do so without resurrecting the UI debt problem that plagued the States most affected by the past recession.

The bill also would make clear that actions taken by the States to promote training for individuals receiving UI benefits would not be considered an expansion of the State's unemployment compensation system.

Mr. **Pease**. In addition, the bill would direct the Secretary of Labor to provide technical assistance to States including the development of model criteria for approving training programs and identifying individuals who would benefit from retraining.

The Secretary would also be required to provide information to the Congress on State practices with respect to retraining unemployed workers. This would include a study examining the effect of the UI/training combination and the duration of UI benefits, subsequent wages of individuals, and the administrative and general assistance cost for States actively pursuing a retraining strategy for UI recipients.

Another innovative approach to the UI system would be to facilitate the use of work-sharing programs, such as those in California, Maryland, Oregon, Arizona, Washington, and Florida. Work-sharing or short-time compensation offers an alternative to layoffs by providing partial UI payments to compensate for general reductions in work hours spread across an employer's work force. The program benefits employers by allowing them to maintain a skilled work force and helps employees by distributing unemployment without significant reductions in income.

The idea behind work sharing is quite simple. For example, a firm finds that it needs to make a production cutback of 15 percent. Rather than laying off 15 percent of its workers, the company could reduce the workweek and pay levels by 15 percent. Under work sharing, the employees who are now working shorter hours would receive 85 percent of their full-time pay and 15 percent of what their weekly unemployment benefits would be.

Mr. **Clinger**. Work-sharing programs clearly deserve more attention. They can help employers hold onto an experienced and skilled labor pool and avoid the costs of hiring and training new employees to take the place of laid-off workers who may no longer be available when work picks up.

The also can help prevent many of the worst hardships unemployment causes by helping preserve jobs during economic downturns.

Finally, Mr. Chairman, the subcommittee, we believe, should look at ways to improve the job search capabilities of workers. One alternative in this direction, which was originally included in the National Training Incentives Act of 1985, H.R. 1219, which was introduced by Representative Nancy Johnson, would be to require the Secretary of Labor to submit to Congress a report on the development and implementation of a nationwide computerized job bank and matching program, already authorized by the Job Training Partnership Act.

The study, of course, first would have to look at ways to upgrade and strengthen the ability of States to match unemployed workers to jobs.

Mr. **Pease**. In conclusion, Mr. Chairman, we are convinced that the kind of reforms of the UI system outlined in our testimony are necessary and possible in this Congress. We want to build broad-based support for this comprehensive effort to simplify and improve the Unemployment Compensation Program at the Federal level for the benefit of the States and its beneficiaries—the American people at large.

Toward this end, later this week we plan to introduce legislation that incorporates in one bill many of the changes in the UI system we have called for today.

Thank you for this opportunity to present our views, and we would be pleased to answer any questions you have at this time.

[The prepared joint statement follows:]

NORTHEAST-MIDWEST
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U.S. House of Representatives

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TESTIMONY OF

The Honorable Don Pease

and

The Honorable William F. Clinger

Co-chairs,
Task Force on Unemployment Insurance

Northeast-Midwest Congressional Coalition

before the

Subcommittee on Public Assistance and
Unemployment Compensation

House Ways and Means Committee

March 18, 1986

530 House Annex No. 2, Washington, D.C. 20515 • (202) 226-3920

Mr. Chairman and members of the subcommittee, as co-chairs of the Northeast-Midwest Congressional Coalition's Task Force on Unemployment Insurance, we are pleased to have the opportunity to testify before you this afternoon on the need for reform of our nation's current unemployment insurance system, in terms of both income maintenance and worker adjustment policies.

We also want to commend the chairman of the subcommittee for calling this hearing on possible new uses for unemployment compensation. Over the past few years, many people have looked for ways to make our venerable unemployment compensation system more responsive to workers and their needs. We think the bills on the agenda today represent some genuine new ideas in the area, and we are glad that this subcommittee is taking the time to give the architects of the proposals a forum.

As we await the testimony of these advocates, we want to take this opportunity to remind the subcommittee of some unfinished business. When we agreed to the phase-out of the Federal Supplemental Compensation (FSC) program last year at about this time, many members recognized the need for a thorough overhaul of our existing system for providing extended unemployment compensation benefits. As strong proponents of reform, we believed that an improving economy afforded an excellent opportunity for reforming the system without having to operate in a crisis atmosphere. As it turned out, the demise of FSC developed into something of a crisis, and so the enthusiasm for reform faded away.

Mr. Chairman, we should use the opportunity we have in this hearing to undertake a serious and thoughtful revision of our unemployment laws to prepare for whatever economic eventuality we might face in the future. Our hope is that these discussions can lead to passage of comprehensive reform legislation later this year.

As co-chairs of the Coalition's Task Force on Unemployment Insurance, we have testified several times before this subcommittee calling for basic reforms in the UI system to make it more reliable for those who depend upon it, more responsive to changes in the economy, and more effective in providing relief and helping put people back to work.

We commend you for the bold action you took last March, when you reported to the full Ways and Means Committee comprehensive legislation that would institute many of the long-overdue reforms we recommended in our testimony. The bill, as reported by the subcommittee, would have merged the Extended Benefits (EB) program with the Federal Supplemental Compensation (FSC) program to form a single, streamlined program of extended benefits for the longer-term unemployed. Unfortunately, the bill appears to have died -- at least temporarily -- in the full committee; we think this hearing can provide the impetus for reviving it.

Despite the economic recovery, a number of fundamental problems with the current UI system must be addressed. For example, the Center on Budget and Policy Priorities has found that in 1985, the percentage of unemployed persons receiving UI benefits fell to the lowest level in the program's history. In an average month last year, fewer than one of every three jobless workers collected benefits. We fear that because no FSC benefits will be available in

1986, unemployment coverage will decline even further.

In addition, we must not let the current economic recovery lull us into a false sense of security and reduce our willingness to act. While continued economic growth and low inflation are welcome signs of better times, other economic factors have fostered a sense of uncertainty about the future. A comparison of employment statistics for December 1985 -- more recent figures came out only this morning -- with those for the same month a year earlier shows that non-agricultural employment in the Northeast-Midwest region increased by over 900,000. The national increase was 2.1 million. The decline in manufacturing employment continued, and was most costly in the Northeast-Midwest region, which lost 205,000 manufacturing jobs in the 12-month period -- nearly 70 percent of the total national loss of 305,000. On the other hand, service employment in the Northeast and Midwest grew by about 443,000, out of a national gain of 918,000.

Also in December, unemployment in the region was 6.7 percent, the same as the national average and down from 7.2 percent a year earlier. However, by February the national unemployment rate, before seasonal adjustment, was back up to 7.8 percent. Unemployment increased in ten of the 11 large states for which figures currently are available. Seven of those states are in the Northeast-Midwest region.

Furthermore, the region has 50 percent of the nation's displaced workers. A recent five-year study by the Bureau of Labor Statistics (BLS) shows that while the national trend is toward reemployment, the Northeast and Midwest account for 57 percent of the displaced workers who still are unemployed, 55 percent of those who have dropped out of the labor force, and only 46 percent of those who have become reemployed.

Mr. Chairman and members of the subcommittee, it is because of our concern over these changes in the economy and the inability of the current UI system to address the needs of the long-term unemployed that we again come before you in support of comprehensive reform. The package you put together last March promises significant improvement, but we urge you to act further on the issue to add substate triggers and training provisions to your legislation. Adapting the UI system to the present realities of prolonged structural unemployment must be a top priority. Reform must not be allowed to die, and we hope this hearing will be a first step toward bringing the issue back to the front burner of policy questions this Congress must address.

The bill the subcommittee reported out last March modifies H.R. 1072, which we introduced last year along with Representatives Stark, Boehlert, and Kaptur. It would make four major changes in the current system of extended compensation for the long-term unemployed:

- First, the bill would set up a single, permanent program of extended unemployment compensation, replacing the current EB and recent FSC programs. We believe that one consolidated program of benefits beyond the initial 26 weeks, with one set of criteria instead of two, would make the UI system easier and simpler to implement and understand for both its administrators and its recipients. The existing system, with its confusing triggers, changing eligibility standards, and varying benefits duration periods, has caused unnecessary anxiety and frustration for the unemployed. It is no better for the state officials who have to adapt their own systems to continual change.

Establishing a consolidated program, triggered automatically by a state's unemployment rate, would allow for swift and prompt reaction to major economic dislocations. Under such a program, the unemployed would know ahead of time what benefits they were entitled to, and how long they would last. This would contrast sharply with our recent history, when repeated legislative action was required to provide FSC benefits.

- Second, instead of the state eligibility requirements of the current EB program, which dictate that a state is eligible for "all or none" of the present 13-week benefit period, the bill would set up a system similar to the most recent FSC program. States with the greatest levels of unemployment would be eligible for the greatest number of weeks of benefits.

- Third, the bill no longer would use a state's Insured Unemployment Rate (IUR) as the sole determinant of eligibility and benefit levels for extended compensation. Instead, it would allow a state to choose between its IUR and its Total Unemployment Rate (TUR), using whichever measure would result in the greatest number of weeks of benefits.

Unlike the IUR, the TUR is a state's most comprehensive measure of unemployment; it includes all of a state's unemployed, as measured by the

Bureau of Labor Statistics, in its calculation of joblessness. The IUR, on the other hand, counts as unemployed only those who are receiving regular UI benefits. Those receiving extended benefits -- and, in the past, federal supplemental compensation benefits -- are omitted from the IUR. Because of this, we do not believe the IUR adequately reflects economic distress in those parts of the country suffering the most from long-term unemployment. Indeed, at least partially because of this IUR methodology, only Alaska and Puerto Rico currently are eligible for extended benefits.

- Fourth, the financing of the program would be arranged on a sliding scale, so that as a state's unemployment rate increased, the federal government would pay an increasing share of the benefits. This provision is one of the most important components of our legislation. The current EB program -- which treats all states that trigger "on" equally, regardless of their unemployment level -- is not equitable and, in many cases, limits the effectiveness of the program. Indeed, it can have the perverse effect of driving up spending substantially and increasing payroll taxes and UI debts in those states with the highest levels of unemployment. Thus it can discourage business growth where it is needed most.

  The new program also would include in the federal financing share a sliding scale between FUTA "trust fund" revenues and general revenues, so that the higher the level of unemployment, the higher the general revenue contribution.

Mr. Chairman and members of the subcommittee, we also would like to make several suggestions we believe would improve the bill reported out by the subcommittee. First, the bill should allow for the use of substate triggers. This proposal is designed to remove the inequities that arise from the exclusive use of statewide triggers. Statewide triggers do not address -- and, indeed, ignore -- the fact that areas within a state may suffer from extremely high and prolonged unemployment, even though the state's overall unemployment rate may be below the "trigger rate" for extended compensation. At a minimum, the subcommittee should allow for three state demonstration projects using substate triggers.

As we envision this program, the states, in conjunction with the Secretary of Labor, would be responsible for defining the substate areas eligible for extended compensation benefits, but they would have great leeway in doing so. Only two requirements would be established: 1) the substate areas would have to contain not less than 5 percent of the state's population, and 2) if portions of more than one county were included, the counties would have to be contiguous. In addition, the bill would establish more stringent eligibility standards for substate areas than for the statewide extended compensation program. The IUR or TUR for a substate area would have to be one percentage point higher than the rate in a qualifying state to trigger the same level of benefits.

Second, the system should include incentives for training and retraining, work sharing, and job search assistance. In the past, we have used UI simply as an income maintenance program for the unemployed. It is time we also used it as a tool to help unemployed workers find new jobs and speed their movement back into the workplace.

Workers receiving UI should be allowed to participate in retraining programs. A 1970 federal law prohibits states from denying UI eligibility to those in training "with the approval of the state," and the Job Training Partnership Act (JTPA) clearly affirms this policy thrust to combine UI and training. Yet, states vary widely in their administrative practices in this matter. One proposal to encourage greater use of the UI-training combination is H.R. 1947, introduced by Representative Kennelly. We are original cosponsors of that bill, along with Representatives Oakar and Boehlert. Specifically, this bill would give states an incentive to permit unemployed workers to upgrade their skills by allowing unemployment payments made to persons in state-certified work preparation and skill training programs to count toward any interest a state may owe on funds borrowed from the federal government to cover UI costs. The approach simultaneously would address two issues: the need for retraining the unemployed, and the need to do so without resurrecting the UI debt problem that plagued the states most affected by the past recession. The bill also would make clear that actions taken by the states to promote training for individuals receiving UI benefits would not be considered an expansion of the state's unemployment compensation system.

In addition, the bill would direct the Secretary of Labor to provide technical assistance to states, including the development of model criteria for approving training programs and identifying individuals who would benefit from retraining. The Secretary also would be required to provide information to the Congress on state practices with respect to retraining unemployed workers.

This would include a study examining the effect of the UI-training combination on the duration of UI benefits, subsequent wages of individuals, and the administrative and general assistance costs for states actively pursuing a retraining strategy for UI recipients.

Another innovative approach to the UI system would be to facilitate the use of work-sharing programs, such as those in California, Maryland, Oregon, Arizona, Washington, and Florida. Work-sharing, or short-time compensation, offers an alternative to layoffs by providing partial UI payments to compensate for general reductions in work hours spread across an employer's work force. The program benefits employers by allowing them to maintain a skilled work force, and helps employees by distributing unemployment without significant reductions in income.

The idea behind work-sharing is quite simple. For example, a firm finds that it needs to make a production cutback of 15 percent. Rather than laying off 15 percent of its workers, the company could reduce the work week and pay levels by 15 percent. Under work-sharing, the employees, who now are working shorter hours, would receive 85 percent of their full-time pay and 15 percent of what their weekly unemployment benefits would be.

Work-sharing programs deserve more attention. They can help employers hold onto an experienced and skilled labor pool and avoid the costs of hiring and training new employees to take the place of laid-off workers who may no longer be available when work picks up. They also can help prevent many of the worst hardships of unemployment by helping preserve jobs during economic downturns.

Finally, the subcommittee should look at ways to improve the job search capabilities of workers. One alternative in this direction, originally included in the National Training Incentives Act of 1985 (H.R. 1219), introduced by Representative Johnson, would be to require the Secretary of Labor to submit to Congress a report on the development and implementation of the nationwide computerized job bank and matching program already authorized by the Job Training Partnership Act. The study, of course, first would have to look at ways to upgrade and strengthen the ability of states to match unemployed workers to jobs.

In conclusion, Mr. Chairman, we are convinced that the kinds of reforms of the UI system outlined in our testimony are necessary and possible in this Congress. We want to build broad-based support for this comprehensive effort to simplify and improve the unemployment compensation program at the federal level, for the benefit of the states and for its beneficiaries -- the American people at large. Toward this end, later this week we plan to introduce legislation that incorporates in one bill many of the changes in the UI system we have called for today. Thank you for this opportunity to present our views, and we would be pleased to answer any questions you may have at this time.

Chairman Ford. Thank you very much, Mr. Pease and Mr. Clinger. It's always good to have the Northeast-Midwest Task Force on Unemployment Compensation to testify before this subcommittee. I think the two of you have very eloquently put it, that we reported a bill from this subcommittee in the last Congress. I heard you, when you mentioned in the conclusion of your testimony, Mr. Pease, that you think the climate is here for this Congress to report legislation out.

As chairman of the subcommittee, that is good news. We know that we are faced with some difficult times in the House of Representatives, but at no time will this subcommittee chairman hold back any legislation that we feel will respond to the issue of unemployment compensation for dislocated workers.

I appreciate the two of you testifying before the committee. I have no direct questions.

I will be happy to recognize Mr. Matsui at this time.

Mr. Matsui. I'd just like to thank the chairman for calling these hearings, and, of course, thank Bill and Don for their testimony today. I certainly admire the Northeast-Midwest Coalition. I wish we had a similar coalition in California. We have to look to you to protect our California interest at times, and we do appreciate your assistance. Thank you for your time today.

Chairman Ford. Thank you very much.

Mr. Clinger. Thank you, Mr. Chairman

Chairman Ford. At this time, the committee will call the Honorable Ron Wyden of Oregon to the witness table. He is the author of H.R. 1690, to provide lump-sum payments for self-employment. We are delighted, Mr. Wyden, to have you before the committee. I want to thank you for staying right on top of the chairman in calling these hearings today, and thank you very much for taking the time to come to testify. We look forward to hearing from you.

STATEMENT OF HON. RON WYDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON, AND ON BEHALF OF HON. RICHARD A. GEPHARDT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. Wyden. Well, thank you very much, Mr. Chairman. I want to tell you how much I personally appreciate your graciousness, because I know that this subcommittee and with the tax bill, you've been extraordinarily busy, and both you and your staff have been most gracious and most helpful, and I want you to know that I'm very appreciative.

Chairman Ford. Well, I think between you and Mr. Matsui, I think you've gotten the attention of this subcommittee. And we are delighted to have you with us today.

Mr. Wyden. Well, thank you very much, Mr. Chairman, and it's also a pleasure to follow our colleagues, Mr. Clinger and Mr. Pease. I have great admiration for their coalition, and they certainly didn't say anything that I wouldn't endorse heartily, and it's a pleasure to follow our colleagues.

Mr. Chairman, Congressman Gephardt of Missouri is unable to come today and wanted me to express his regrets to you. The statement that I would make today, with your permission, would be on behalf of both Congressman Gephardt and myself.

Chairman FORD. The committee will accept it on behalf of Congressman Gephardt and yourself, Mr. Wyden.

Mr. WYDEN. Thank you very much, Mr. Chairman.

The legislation that I've introduced has been a joint venture with our very able colleague from California, Mr. Matsui, as well as Congressman Gephardt and myself. Both of us feel very strongly about looking at new ways to help solve one of the most wrenching social and economic problems of our time; and that is the plight of the dislocated workers.

These workers, many of them highly skilled and very motivated, and who feel strongly about the American work ethic, have permanently lost their jobs due to the major structural changes our economy is now experiencing. And you see this from the steel mills of Pennsylvania to the coal mines of West Virginia, the textile plants down in North Carolina, assembly lines in Michigan, and, of course, the sawmills in my own home State of Oregon. In all of these regions, you see millions of working men and women struggling to put their lives back together and regain their rightful status as productive members of our society.

Mr. Chairman, we believe very strongly that the Federal Government can and should be doing more to assist the dislocated worker, and we think that if we look at existing Federal assistance programs, like unemployment insurance, in a slightly different light, real assistance can be provided without major new appropriations, without adding to the deficit, and without threatening the sanctity and primary purpose of the Unemployment Insurance Program. And we also believe it can be done without adding to the tax burden of our employers or the general public.

Now in one sense, Mr. Chairman, H.R. 1690 doesn't fit perfectly within the announced subject of the hearing, which is alternative uses of unemployment compensation trust funds to assist the dislocated worker. We are not talking, Mr. Chairman, about the trust funds' money. We are talking about an individual worker's money, their earned benefits, and it seems to me the question is, Why should qualified and motivated workers have that eligibility revoked and those earned benefits taken away simply because they realize that their old jobs are gone forever and that they want to try and create a job of their own? That's really the bottom line question of H.R. 1690, Mr. Chairman, and we believe that you shouldn't take the earned benefits of our workers away simply because they want to go out and make a new life when their old jobs are gone forever.

For the individuals who are selected by the participating States for the self-employment option, H.R. 1690 would remove the restrictions in current law, primarily work search requirements, that now bar dislocated workers from attempting to start a business of their own without losing their eligibility for unemployment benefits. In a sentence, Mr. Chairman, that's what our legislation is about.

And the Self-Employment Opportunity Act is an example of how Congress can, on an experimental, demonstration project basis, find out not if unemployment insurance funds should be used for alternative purposes, but if designated, individual dislocated workers can use their own earned unemployment benefits in a new way. And we think it would give qualified workers whose jobs have disappeared forever a new option, the option to be able to create a job of their own.

Now, Mr. Chairman and colleagues, we don't offer this proposal as some kind of quick fix or panacea for the problem of unemployment. In fact, Mr. Chairman, we aren't even going to guarantee here today that it's going to work. We do fervently believe that it's an idea that's worth trying.

Now the pilot projects that we would like to see pursued are limited in three ways. First, the Department of Labor would be directed to accept pilot project applications from at least 5, but no more than 10, States.

Mr. Chairman, we anticipate that there would be a great deal of interest among the States because we've already received letters from a number of the States endorsing the idea, asking if they could apply, and with your permission, Mr. Chairman, I will attach copies of some of those letters to my statement for part of the record today.

Chairman **Ford**. Without objection, it will be made a part of the record.

Mr. **Wyden**. Mr. Chairman, the second limitation would be, in those States selected, no more than 5 percent of the eligible unemployment compensation beneficiaries would be allowed to participate.

The third limitation would be that the demonstration projects would terminate in 3 years to be followed by an extensive evaluation of the results by the Labor Department. The Labor Department would be instructed to choose the most innovative and workable State pilot projects and supplemental State assistance, if available, would obviously be very welcome. Selected States would have to set up a screening process to evaluate individual small business proposals and would be encouraged to utilize existing or new small business management and technical support services that are available in a number of our communities to help these workers get started.

To encourage innovation and allow each State to most efficiently match individual needs and resources, we have drafted our proposal in a way that would give participating States the maximum amount of flexibility in setting up their pilot projects. As presently written, this flexibility would extend to the method of paying unemployment benefits, including the possibility of a lump-sum payment that could be used as seed money to leverage additional startup capital.

In the vast majority of cases, Mr. Chairman, we expect that selected States would continue to pay benefits on a weekly basis, just as if those workers were not involved in self-employment initiatives. The unemployment benefits could be used for food and shelter expenses, while the other resources—savings, perhaps a loan from a family member or friends or possibly a working spouse's income—could be pooled to help meet the startup costs of the business.

We would like to make it very clear, Mr. Chairman, that if it was the will of the subcommittee that payment methods other than the normal weekly benefit check procedure should not be allowed, either to avoid the possibility of a windfall or misuse of the benefits or to ensure that the primary income maintenance purpose of the program is maintained for protection of the participating workers, we would have no objection whatever to the subcommittee feeling that the traditional payment procedure of the normal weekly benefit check would be maintained.

Federal efforts to aid dislocated workers should extend beyond the Unemployment Insurance Program. We share the concerns voiced by many experts in this area about expanding the purposes of the trust fund itself beyond the primary purpose of income maintenance. Under our proposal, the trust fund would not be jeopardized, because we are talking about benefits that have been earned by and are payable to the individual unemployed worker in this country, and no one would receive more under the self-employment option than they would be eligible to receive under the standard traditional program of today.

In virtually all cases, dislocated workers exhaust their eligibility for unemployment benefits. As you noted in announcing this hearing, Mr. Chairman, dislocated workers are those, and I quote, "who are going to have to change careers and whose spell of unemployment can be expected to last a lot longer than the 6 months in which they can get unemployment benefits."

In addition, Mr. Chairman, the States, as managers of the trust fund, have a special incentive to make sure that dislocated workers are properly identified and that the fund is not used incorrectly. As a result of all these factors, the experience rating and the tax burden of employers will not be affected by a self-employment demonstration project. Again, this program is intended to assist individual dislocated workers who are already eligible to draw unemployment benefits. We don't think there is any reason to fear that it would jeopardize the trust fund, employee rights, or the rights of employers in any way.

Mr. Chairman, as you know, we have discussed this, and our colleague, Mr. Matsui, and I have as well, that the model for this idea is a number of successful programs underway in Europe, in particular Great Britain and France, that have enabled hundreds of thousands of people to become self-employed in the past 6 years. An encouragingly high percentage of those businesses are still operating after the first 3 years, and one-third of all the new businesses in France in 1984 were started by unemployed workers.

We recognize, Mr. Chairman, that there are differences in Government support mechanisms between the United States and Europe. But even with those differences, Mr. Chairman, we think the results overseas are encouraging and certainly warrant the consideration of a similar experimental program in our country.

We are convinced that there are thousands of people in the unemployment lines today with real skills, with special ingenuity, and the ability to become self-employed, and we would very much like to see our society broaden its perspective on who can successfully start a small business. Certainly not everyone has to be a

Harvard MBA or a computer science whiz in order to be a successful entrepreneur.

The last point that I make, Mr. Chairman, is that while it's certainly true that many communities in our country are seeing very substantial economic growth, there are certainly many communities and millions of Americans who are being bypassed by economic recovery. The unemployment rate is back up over 7 percent as of last month, and the economy simply isn't creating enough jobs for all those who want to work.

If we can't offer a decent job at a decent wage for everyone who would like one, it seems to me the last thing society ought to do is penalize those who have the ability and the desire to create their own job. Our income maintenance system should offer the widest possible number of options to allow workers who won't be able to get back to their old jobs the opportunity to use their individual talents and individual abilities to get back on their feet.

So, Mr. Chairman, we think the Self-Employment Opportunity Act can give us a chance, through a limited experimental approach, to look at a fundamental but warranted departure from our traditional view of individual unemployment benefits, but not from the unemployment trust fund itself. H.R. 1690 would not in any way use trust fund money for any new program or new purpose. It would simply redefine what selected individual recipients can or cannot do and still be able to be eligible for unemployment benefits which they have clearly earned and are clearly entitled to.

Again, Mr. Chairman, my thanks to you.

My thanks also to our colleague from California. It is always a pleasure to work with him on legislation, and that concludes my comments.

[The prepared statement and attachments follow:]

STATEMENT
CONGRESSMEN RON WYDEN & DICK GEPHARDT
WAYS & MEANS SUBCOMMITTEE ON
PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION
MARCH 18, 1986

THE SELF EMPLOYMENT OPPORTUNITY ACT

Mr. Chairman, we want to commend you for scheduling this hearing today to discuss new ways to help solve one of the most wrenching social and economic problems of our time: the plight of dislocated workers. Such workers, many highly skilled, highly motivated and highly steeped in the American work ethic, have permanently lost their jobs due to the major structural changes our economy is now experiencing. From the steel mills of Pennsylvania to the coal mines of West Virginia, the textile plants of North Carolina, the assembly lines of Michigan and sawmills of Oregon, millions of working men and women are struggling to put their lives back together and regain their rightful status as productive members of our society.

We believe that the federal government can and should be doing more to assist dislocated workers. And we further believe that, if we look at existing federal assistance programs -- like unemployment insurance -- in a slightly different light, real assistance can be provided without major new appropriations, without adding to the deficit, without threatening the sanctity and primary purpose of these programs and without adding to the tax burden of employers or the general public.

Mr. Chairman, HR 1690, in a sense, does not fit within the announced subject of this hearing today, which is "alternative uses of unemployment compensation trust funds to assist dislocated workers." We are not talking about the trust fund's money. We're talking about an individual worker's money -- earned benefits. Why should qualified and motivated workers have that eligibility revoked and those earned benefits taken away simply because they realize that their old jobs are gone forever and they want to try to create a job of their own? That is the bottom line question that HR 1690 seeks to answer. And the answer is that they should not.

For individuals selected by participating states for the self employment option, HR 1690 would remove the restrictions in current law -- primarily "work search requirements" -- that now prevent dislocated workers from attempting to start a business of their own without losing their eligibility for unemployment benefits. That, in the simplest and most concise sense, is what HR 1690 is all about. No more and no less.

The Self Employment Opportunity Act is an example of how Congress can -- on an experimental, demonstration-project basis -- find out, not if unemployment insurance trust funds should be used for alternative purposes, but if designated individual dislocated workers can use their own, earned unemployment benefits in a new way. It would give qualified workers whose jobs have disappeared forever a new option -- the opportunity to create a job of their own.

We are not offering this proposal as a panacea for the problem of unemployment. Nor are we guaranteeing that it will work. We fervently, believe, however, that it is worth trying.

These pilot projects would be limited in three ways. First, the Department of Labor is directed to accept pilot project applications from at least five but no more than ten states. Second, in those states selected, no more than 5 per cent of the eligible unemployment compensation beneficiaries would be allowed to participate. And third, the demonstration projects would terminate in three years, to be followed by an evaluation of the results by the Labor Department.

The Labor Department is instructed to choose the most innovative and workable state pilot projects, and supplemental state assistance, if available, would obviously be welcome. Selected states would have to set up a screening process to evaluate individual small business proposals and would be encouraged to utilize existing or new small business management and technical support services to help these workers get started.

To encourage innovation and allow each state to most efficiently match individual needs and resources, we have drafted this proposal in a way that would give participating states the maximum amount of flexibility in setting up pilot projects. As presently written, this flexibility would extend to the method of paying unemployment benefits -- including the possibility of a lump sum payment that could be used as seed money to leverage additional start-up capital. In the vast majority of cases, however, we expect that selected states would continue to pay benefits on a weekly basis, just as if these workers were not involved in self employment initiatives. Unemployment benefits could be used for food and shelter expenses while other resources -- savings, loans from family members or friends, a working spouse's income -- could be pooled to meet the start up costs of the business.

We would like to make it very clear that, if the Subcommittee feels that payment methods other than the normal weekly benefit check procedure should not be allowed -- either to avoid any possibility of a windfall or misuse of benefits, or to ensure that the primary income maintenance purpose of the program is maintained for the protection of the participating workers -- we would have absolutely no objection.

While federal efforts to come to the aid of dislocated workers should extend beyond the unemployment insurance program, we share the concerns voiced by many experts in this area about expanding the purposes of the trust fund itself beyond the primary purpose of income maintenance. Under our proposal, the trust fund would not be jeopardized because we are talking about benefits that have been earned by and are payable to individual unemployed workers. And no one would receive more under the self employment option than they would be eligible to receive under the standard program. In virtually all cases, dislocated workers exhaust their eligibility for unemployment benefits. As you noted in announcing this hearing, Mr. Chairman, dislocated workers are those "who are going to have to change careers and whose spell of unemployment can be expected to last a lot longer than the six months in which they can get unemployment benefits."

In addition, the states, as managers of the trust fund, will have sufficient incentive to make sure dislocated workers are properly identified and the fund is not used incorrectly. As a result of all these factors, the "experience rating" and tax burden of employers will not be affected by the self employment demonstration projects. Again, this program is intended to assist individual dislocated workers who are already eligible to draw unemployment benefits. There is no reason to fear that it would jeopardize the trust fund, employees rights or employers rights in any fashion.

This proposal is modeled after successful programs underway in Great Britain and France that have enabled hundreds of thousands of people to become self employed in the past six years. An encouragingly high percentage of these businesses are still operating after the first three years. One third of all new businesses in France in 1984 were started by unemployed workers.

While there are differences in government support mechanisms between the U.S. and these European nations, these results are encouraging -- and sufficiently compelling to justify a similar, experimental program in this country. We are convinced that there are thousands of people in the unemployment lines today with the necessary skills and ingenuity to become self employed. And we need to broaden our perspective on who can successfully start a small business. Not all entrepreneurs are necessarily Harvard MBAs or computer science wizards.

Although the economy continues to grow, many parts of the country -- and millions of Americans -- are not enjoying the fruits of economic recovery. The unemployment rate crept back up over the 7 per cent mark again last month. The economy is simply not creating enough jobs for all who want to work. If we cannot offer a decent job at a decent wage for everyone who wants one, the least we can do is not penalize those who have the ability and the desire to create their own. Our income maintenance system needs to offer the widest possible number of options to allow workers who will never be able to go back to their old jobs the opportunity to use their individual talents and ability to get back on their feet.

The Self Employment Opportunity Act represents, on a limited, experimental basis, a fundamental but warranted departure from our traditional view of individual unemployment benefits, not the unemployment trust fund itself. HR 1690 would not in any way use trust fund money for any new program or new purpose. It would merely redefine what selected individual recipients can or cannot do and still remain eligible for unemployment benefits to which they are otherwise clearly entitled. Thank you.

ADM 12-2/PS:JP

VICTOR ATIYEH

OFFICE OF THE GOVERNOR
STATE CAPITOL
SALEM 97310

August 7, 1985

RECEIVED
JAN 8 1986
EMPLOYMENT DIVISION
PERSONNEL AND TRAINING UNIT

The Honorable Gary Hart
United States Senator
The Honorable Ron Wyden
Member of Congress
Washington, D.C. 20510

I genuinely appreciate your sending the information about the Self-Employment Opportunity Act of 1985. I am always favorably disposed toward any legislation that is intent upon helping unemployed Oregonians. The fact that your bill will take normal transfer payments and transform them into a vehicle for creating jobs through individual effort has great appeal.

As you are no doubt aware, Oregon's economy is suffering from a prolonged slump in the woods products industry. Unfortunately other industries are now experiencing residual downturns as well. As our job market compresses it becomes ever more difficult for Oregon's displaced workers to find gainful employment. Your bill would provide, as you say, "seed capital" for the new enterprises desperately needed by Oregon's citizens at this time. For this reason I wish to endorse your legislation and, additionally, I would like Oregon to be considered for a role as a demonstration state by the Department of Labor.

I wish you the best of luck in carrying your bill through the Congress.

Sincerely,

Victor Atiyeh
Governor

VA:jp

bcc: Employment Division

State of Montana
Office of the Governor
Helena, Montana 59620

TED SCHWINDEN
GOVERNOR

June 14, 1985

Honorable Gary Hart
United States Senate
Washington, D.C. 20510

Dear Senator Hart:

Thank you for the opportunity to comment on the Self-Employment Opportunity Act 1985. The concept is a refreshing approach to job creation and would be welcome in Montana.

The Montana Department of Labor and Industry would be interested in serving as a pilot state for the program. However, because there would be numerous legislative and administrative requirements to be met (just like in any other state), we would need lead time to secure the enactment of the needed legislation.

If I can be of any further assistance, please contact me.

Sincerely,

Ted Schwinden
TED SCHWINDEN
Governor

cc: Congressman Ron Wyden
Senator John Melcher
Senator Max Baucus
Congressman Pat Williams

RECEIVED
1985
REP. RON WYDEN

BILL SHEFFIELD
GOVERNOR

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

June 18, 1985

[illegible] VERIFIED? Y___ N___
PROFILE(S): ______

The Honorable Ron Wyden
House of Representatives
Committee on the Budget
Washington, DC 20515

Dear Congressman Wyden:

I received your correspondence of May 28 regarding support for legislation that would provide entrepreneurship opportunities through a demonstration project for unemployed workers. This project would enable jobless men and women to use their unemployment benefits while becoming self-employed. Thank you for informing me of this innovative concept.

I agree with your concern. Something must be done to alter the plight of the structurally unemployed and the substantially high number of skilled jobless who are sustained by the welfare and income maintenance system. Your proposed legislation, the "Self-Employment Opportunity Act of 1985," will help approximately 5 percent of the qualified and skilled unemployed workers of each state take control of their own lives and, hopefully, employ others along the way. Your concept sounds interesting and appears to have merit. It is creative and innovative, and we need to look at any viable mechanism that will increase job opportunities.

Your new way of approaching this problem allows for growth while gaining equity by encouraging qualified people to invest in themselves by using their transfer payments as working capital for creation of their own enterprise. I like the idea, and you can count on my support.

Sincerely,

Bill Sheffield

Bill Sheffield
Governor

STATE OF MINNESOTA
Washington Office
400 North Capitol Street, Suite 388
Washington, D.C. 20001
(202) 624-5308

RUDY PERPICH
GOVERNOR

JAMES A. DeCHAINE
DIRECTOR

DOCUMENT I.D. #________
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PROFILE(S):________

RECEIVED
JUN 2[illegible] 1985
REP. RON WYDEN

June 24, 1985

The Honorable Ron Wyden
1406 Longworth House Office Building
Washington, DC 20515

Dear Representative Wyden:

Governor Perpich has asked that I respond to your recent letter outlining your proposed changes for unemployment compensation.

We have reviewed your proposal and wholeheartedly endorse your concept of assisting unemployed in becoming self-employed. It is a revolutionary concept, but one as you point out has worked well in France and England.

We in Minnesota would be pleased to work with you in further developing this legislation.

Sincerely,

James A. DeChaine
Director
Washington Office

JAD/jgk

cc: Rudy Perpich, Governor/State of Minnesota
Minnesota Congressional Delegation

STATE OF ARKANSAS
OFFICE OF THE GOVERNOR
State Capitol
Little Rock 72201

Bill Clinton
Governor

JULIE
MATHEWS
6/27/85

June 21, 1985

The Honorable Gary Hart
United States Senate
Washington, D. C. 20510

Dear Gary:

Thank you for your recent letter regarding legislation to provide unemployed workers with entrepreneurship opportunities which you, Ron Wyden, Richard Gephardt, and Charles Schumer have proposed. I am very pleased with and supportive of your efforts to come up with a creative alternative to traditional unemployment compensation.

One suggestion that I would like to offer for your consideration is that the legislation be written to include a provision that allows for several unemployed workers to pool their lump sum payments to finance a new business venture. Arkansas is a small rural state; 26 weeks of unemployment insurance averages out to $2,574. If our unemployed workers were allowed to pool their lump sum payments, the chances of success would be greatly enhanced.

I encourage you to continue your efforts to solve the very serious problem of unemployment that we face. I hope you will continue to keep me apprised of your efforts.

Sincerely,

Bill Clinton

BC/pj

WYOMING
EXECUTIVE DEPARTMENT
CHEYENNE

ED HERSCHLER
GOVERNOR

RECEIVED
JUL 8 1985
REP. RON WYDEN

July 2, 1985

The Honorable Ron Wyden
House of Representatives
Longworth House Office Bldg., Rm. 1406
Washington, D.C. 20510

Dear Congressman Wyden:

I am writing you to express my full support and endorsement of the Self Employment Opportunity Act of 1985, which you recently introduced in Congress. It is my belief that this proposed legislation provides for a fresh and innovative approach to the reduction of unemployment and promotion of additional job creation opportunities.

Further, I would suggest that this approach could be strengthened by allowing all states desiring to implement a demonstration program to do so rather than restricting it to five to ten states. This suggestion would increase the variety of demonstration programs while allowing states to tailor such programs to their own unique circumstances. The demonstration mode could be retained by establishing a cap on either the % of dollars expended on the program or % of participants on the program.

Yours sincerely,

Ed Herschler

EH:pm

DOCUMENT I.D. #__________
SPELLING VERIFIED? Y___ N___
PROFILE(S): __________

STATE OF MARYLAND
EXECUTIVE DEPARTMENT
ANNAPOLIS MARYLAND 21404

HARRY HUGHES
GOVERNOR

July 9, 1985

RECEIVED
12 1985
REP. RON WYDEN

The Honorable Ron Wyden
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Wyden:

Thank you for your letter of May 28, 1985, cosigned by Senator Hart, outlining your proposal for the creation of a demonstration project using unemployment insurance benefits to foster entrepreneurship.

I am convinced, as you are, that as a nation we must develop new solutions to the problems of structural unemployment plaguing the nation even during economic upswings. Many of the structurally unemployed, namely those workers displaced from declining industries and occupations, have substantial skills that could be marshalled to generate new businesses.

Often these workers are unable to pursue self-employment as an option because they lack the resources to sustain themselves during the difficult start-up of a new enterprise and often lack the capital to purchase necessary equipment. The unemployment insurance system provides these workers with short-term income support but only if they pursue regular employment and not self-employment. In Maryland we can provide up to $4,550 in income support, an amount that might be beneficially spent to create new business and permanent support rather than simply temporary support. I whole heartedly endorse your plan to create this new option under a Federal demonstration project.

As the legislation for this new program is developed, I urge you to address two key issues. First, benefits paid through this experimental program should not be charged to the worker's last employer but rather charged to the Federal Unemployment Benefit Account with an appropriate allocation of Federal funds for that purpose. Second, I urge you to provide sufficient additional administrative resources to the pilot states as a means of encouraging participation in the pilot and ensuring sound administration.

Thank you for sending me your plan. You can count on my endorsement of, and Maryland's interest in, the Self-Employment Opportunity Act of 1985.

Sincerely,

Harry Hughes

Governor

GENERAL INFORMATION 301 269 3431 TTY FOR DEAF BALTO AREA 269 2609 D C METRO 565 0450

COMMONWEALTH of VIRGINIA
Office of the Governor
Richmond 23219

Charles S. Robb
Governor

August 28, 1985

The Honorable Ron L. Wyden
U. S. House of Representatives
1406 Longworth House Office Building
Independence and N. J. Avenue, S.E.
Washington, D. C. 20515

Dear Ron:

Thank you for your letter and enclosed materials concerning the Self-Employment Opportunity Act of 1985.

The bill's aim of encouraging qualified unemployed persons to become self-employed is innovative and offers hope to at least some of the over 8 million people in our country currently out of work. While I understand concerns exist as to the minimum level of funding needed to successfully implement this type of proposal, the positive European results suggest that a limited pilot program to test the idea has merit.

I am happy to find that your proposal gives states wide latitude in designing the details of individual programs and that provision has been made for screening applicants and for careful follow-up of the projects.

I appreciate the opportunity to review and offer comments on this bill, and I look forward to hearing more about it in the future.

Sincerely,

Chuck

Charles S. Robb

CSR/jhw

EXECUTIVE CHAMBERS
HONOLULU

GEORGE R. ARIYOSHI
GOVERNOR

June 20, 1985

The Honorable Gary Hart
United States Senate
The Honorable Ron Wyden
U. S. House of Representatives
Washington, D. C. 20510

Dear Senator Hart and Congressman Wyden:

Thank you for your letter of May 28, 1985, regarding proposed legislation to provide unemployed workers with an opportunity to develop entrepreneurial talent and create new jobs.

I support the intent of the proposal wholeheartedly and am willing to cooperate to make this effort succeed.

The use of unemployment benefits as a vehicle to create work for jobless individuals is a progressive, innovative approach to the problem of persistent joblessness. In our technologically and internationally oriented society, traditional solutions are no longer effective. We realize that we need new solutions to unemployment, and this new option could stimulate an economy that has not been able to achieve full employment.

In recent years, Hawaii has witnessed the agonizing decline of our agricultural industries which once dominated the island economy. As agribusiness suffers, so do those reliant upon it for survival--workers, their families, related businesses, and, ultimately, the economy of the state. Without employment opportunities and lacking transferable skills, the chronically unemployed have remained hopelessly dependent on unemployment insurance and other income maintenance programs.

The Self-Employment Act of 1985 may be the incentive that some workers in Hawaii need to become self-sufficient by starting their own businesses. By subsidizing self-employment, the government can help the jobless to help themselves and, in the process, become motivated, productive members of our society. This new opportunity will pull the unemployed out of the vicious cycle of dependency to retain their self-respect, independence, and self-worth.

The Honorable Gary Hart
The Honorable Ron Wyden
Page 2
June 20, 1985

The results of similar projects in Britain and France are encouraging. With careful monitoring and proper screening procedures, the United States can achieve the same success. It will be worth our effort if we can save even a small percentage of unemployed workers from being victimized by socio-economic forces beyond their control.

With warm personal regards, I remain,

Yours very truly,

George R. Ariyoshi

George R. Ariyoshi

Chairman **Ford**. Thank you very much, Mr. Wyden, and thank you for the testimony.

You know, you have talked about individuals, you have talked about the trust fund itself. It's not the trust fund, it's dollars.

Let me pose one question to you:

Why should the employers who pay the unemployment insurance tax be asked to fund someone's business venture through a program like your bill addresses in H.R. 1690?

Mr. **Wyden**. Well, I think the first thing that employers are concerned about, is whether or not something like this would require higher taxes. That question is something that has been raised. We don't see that happening, Mr. Chairman. We are talking about individual earned benefits. If, as we anticipate, the pilot projects are used to offer a new option to selected dislocated workers who are almost certain to draw the full 26 weeks of benefits, anyway, there wouldn't be an adverse impact on the employer's experience rating or employer's tax burden.

I think that addresses one of the key concerns.

Chairman **Ford**. In other words, they are going to receive the 26 weeks in most States, now, of unemployment compensation benefits, and you contend or suggest in your bill that if that is the case, why not have alternatives for dislocated workers with some type of business venture?

Mr. **Wyden**. I think that states it very well, Mr. Chairman. These are workers whose jobs are not going to be coming back and they are going to be getting the full 26 weeks, and it seems to me that it is in the interest of all Americans to have those citizens be in a position to——

Chairman **Ford**. Is this about 5 percent of the total of——

Mr. **Wyden**. We would have that limitation, yes, Mr. Chairman; in selected States.

Chairman **Ford**. Selected States, three States.

Mr. **Wyden**. Our bill would allow a minimum of 5 States, Mr. Chairman, a maximum of 10 States, and up to 5 percent of the people in an individual State.

I might add, Mr. Chairman, as well, with respect to the screening procedures in a given State, for screening individual applicants, the information that we have received is that it wouldn't cost any more to screen them for something like this than it does right now to monitor the various work-search requirements and things that are in place today.

Chairman **Ford**. OK. Thank you very much.

Mr. Matsui?

Mr. **Matsui**. Mr. Chairman, I would like to commend Mr. Wyden for his very innovative approach to handling the unemployment problem for a certain segment of our population. I look forward to working with him in attempting to come up with at least a demonstration project as he has discussed.

Mr. **Wyden**. I very much appreciate that and, as I say, I think that's what we want, is to figure out a way to do the demonstration projects, Mr. Chairman. And what our understanding is of the current law is you have got to be searching for work and be available for work to get unemployment, and if you are trying to start a little business, you can't do that, and we would like to see if we could figure out a way to test a way that we could change that.

Chairman FORD. Thank you very much.

Mr. WYDEN. Thank you, Mr. Chairman.

Chairman FORD. Our next witness is the Honorable Sandy Levin of Michigan. He is developing a bill on training. He introduced H.R. 1278 last year in the Congress. We are delighted, Sandy, to have you before the subcommittee.

STATEMENT OF HON. SANDER M. LEVIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. LEVIN. Thank you very much, Mr. Chairman. Nice to see you and members of the staff, whom we have come to know a bit during these last months.

If I might, I'd like to just summarize the testimony you have, and refer to it in a larger framework, if I might. I assume already you have done the necessary to have all of our statements incorporated in the record, Mr. Chairman. If not, I will ask that my statement in full be placed in the record.

Mr. MATSUI [presiding]. Without objection.

Mr. LEVIN. Thank you.

I contrast today with 20 years ago, when I was in the State legislature, and when I was chairing the Michigan State Senate Labor Committee.

We spent a lot of time reforming the unemployment comp laws of the State. We spent a lot of time talking about benefit levels, a lot of time talking about duration. We spent endless weeks talking about the 1-week waiting period and battling over its continuation or its termination.

I think it is quite a contrast, at least in some respects, to today. The needs have changed. The model that we had in mind 20 years ago was somebody came to work, somebody usually was laid off, it usually was brief, especially in a State like Michigan that was often from auto changeover, but this was true throughout much of the country. And people then went back to the jobs from which they had been laid off. That was our mindset. And so we appropriately grappled with the issue of how to reform that system 20 years ago to meet the needs then.

Today when people are laid off, they are unlikely to return in many more cases to the firm that laid them off.

On the average, people should expect to change jobs today, in contrast to 20 years ago, five or six times during their working life. I come here today urging that this subcommittee not only take the lead in examining these issues, as it has been doing, but implement its leadership, and reform the unemployment comp laws.

Today we are getting the worst of both worlds. Only a third of the unemployed are receiving benefits. I think this may be the lowest proportion, ever. And the system, the unemployment system, isn't tied into another expanding need of the work force compared to 20 years ago; the need for training and retraining.

The bill that I will be introducing will cover a number of areas, and let me just touch on them very, very briefly.

First of all, it will propose reform of the UI's funding mechanism, and of its provisions. We simply have to find more effective ways today to match the unemployed with market needs, and you will see, as outlined, on page 4 of my statement, there will be a proposal for some pilot projects, using some of the surplus in the fund, the UI administration fund, to let States experiment with creating state-of-the-art labor market exchanges, and we suggest how that might be done. We also hope that as you look at this area that you will look at the formula for funding the administration of the UI Program. It is not working.

A second proposal relates to the flexibility of UI. Some steps were taken some years ago to make it more flexible; to allow people who are unemployed to receive benefits while they were in training. But it is not working out very well. It isn't working in most places.

Congresswoman Kennelly has introduced legislation that would address this problem, and it will be included within—at least the gist of it—within the comprehensive bill that I will be proposing.

The same is true as to short time compensation. Since the amendment of the act to permit it, it has been incorporated, adopted in only just a few States, and it seems to me as we look at reform of the system, we should find ways to encourage its broader use.

The third area relates to early identification. This country is way behind other countries in anticipating unemployment and its consequences. I spent a week last summer in Japan. The Japanese are far ahead of us. They don't throw people out on the streets and after they're there say what comes next. There is anticipation. There is acknowledgment that everybody would benefit from anticipation.

To put it bluntly, this issue remains in this country still tied into adversarial relationships between management and labor. That was the history of the plant closing legislation that we voted on unsuccessfully last year, and I am going to suggest that we give firms some inducement to provide advanced notice of plant closing.

Also you will notice on page 8 that I outline a proposal to find ways to troubleshoot where major dislocation is going to occur.

I think you know what is done in Canada, when there is an anticipated layoff. Resources are marshaled and sent in to help out in advance. We simply have to embrace that approach much more effectively.

There is a provision beginning on page 8 relating to coordination, and I want to come back to that in just a couple of minutes as I finish.

Page 9, I refer to innovation. The bill will incorporate in one form or another—we are still working on final language—provisions to allow employees to cash out.

I would like to address the question from the chairman as to why allow employees to cash out; 25 years ago when I was representing employees, my argument was that people worked for their benefits. That is true in this country. Unemployment benefits are tied to work, and it makes sense to give employees some flexibility.

They are also paid for by the employer, and that is reason to assist employers in anticipating dislocation and to train and retrain people.

And the second proposal would allow benefits in a broader way, where people want to relocate. As I remember the law, it was very difficult for people to relocate and be tided over.

And finally, on page 10, I address more fully the issue of adequacy of benefits and coverage.

When was it, 2 years ago, I had the honor of joining you—3 years ago. I've only been here 4, so I think it was 3 years ago I was here when so many States and, more importantly, the people living in these States, were going through the excruciating impacts of unemployment. And I tried to explain to people in the State of Michigan what the system was. I tried to explain to people on unemployment comp lines why the law was like it was. Why people in a State that was suffering—what was it, 17, 18 percent unemployment—why those employees were not going to receive supplemental compensation, and I had to begin to explain, well, it was because Michigan started at a different point, and so because we started at a different point, that we had gone through agony, they were out in the dark. It just made no sense. It pained me to give that kind of a lame explanation.

We have to change it, and I want to, if I might, finish on that note. I was reading over a few weeks ago an article about what was happening to a GE plant when there was dislocation, and the article made clear the necessary breadth of any adequate response. This unemployment comp reform bill that I will be throwing into the hopper with others, is going to be part of a larger comprehensive approach on unemployment, retraining, and training, that emanates in part from the Democratic task force that I had the honor of heading. But I think is also very much a bipartisan issue.

It is going to suggest that we not only look at unemployment comp, but training and retraining reform, the connection between work and welfare, our programs relating to youth, JTPA, Job Corps, vocational ed, illiteracy, continuing education, the use of ITA's and education fringe benefits, and the whole concept of partnership.

I mentioned this article about what was done at a GE plant because what they did was the following: Advance notice, an income maintenance program supplemented by GE, allowed employees to draw out moneys in a lump sum or receive money as an income supplement. A trouble-shooting force and combined Federal, State, and private resources. These people come in and with the State unemployment officials, they sign people up quickly. Four professionals begin to counsel employees individually and in group sessions on how to find new jobs. They are tested. I am just picking out the highlights. They are enrolled in a 2-week workshop. Jobs are listed. People are retrained.

There is a sense within the Congress, I'm afraid, that because of the budget crisis and the budget crunch, and I think both are true, that we are hand tied, that there is no room for initiative, that all we need to do is find a way to reach $144 billion and adjourn; $144 billion is the target.

Two things: First of all, when there is a budget crunch, we have to look at priorities. I think reform and improvement in this area must be one of the priorities. Second, some of the reforms will cost money but some of them will not.

We have two conditions, it seems to me, existing today, relating to unemployment and the whole picture of training and retraining. First of all, the need is absolutely clear. We simply cannot maintain the status quo in a changing America, with changing workplaces, changing patterns in the workplace. Second, we know how to do some of these things. Some of these reforms make sense clearly.

I would hope that the subcommittee would take this moment, if possible, cutting across party lines, to examine our unemployment insurance system. You can't undertake all the reforms that I referred to, but you can undertake some of the critical ones. In my humble judgment, the need is clear. We know how to do some of these things so the time is now.

[The prepared statement follows:]

SANDER M. LEVIN
17TH DISTRICT, MICHIGAN

COMMITTEES
BANKING
GOVERNMENT
OPERATIONS
SELECT COMMITTEE
ON CHILDREN, YOUTH
AND FAMILIES

Congress of the United States
House of Representatives
Washington, DC 20515

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REMARKS OF CONGRESSMAN LEVIN BEFORE THE WAYS AND MEANS SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION, 3/18/86

Mr. Chairman, there is a crisis in this land that has gone largely unreported - as we enter the 39th month of the current economic expansion, the number of unemployed workers at 8.5 million remains at near record levels and less than one-third of these jobless are collecting unemployment compensation. Clearly our current employment security system is failing the millions of unemployed who face each week without a check of any kind and very limited prospects for the training and retraining they may need to secure meaningful work.

This single fact, less than one-third of today's jobless are collecting unemployment, is to me the most telling indictment of our existing systems to help the unemployed - but the answer does not lie in simply ensuring that more people are eligible for unemployment compensation. Times have changed. Systems such as unemployment compensation, the employment service, and many programs like vocational education that are not in the purview of this Committee were created in another era, an era when the manufacturing sector dominated the economy and workers could expect to enter a plant in their youth and after 30 years retire with a pension.

The workforce is changing, the workplace is changing, our systems for assisting the unemployed must also change.

This past April, I was asked to head a Task Force of the House Democratic Caucus on Job Training and Employment. Two distinguished members of this panel, Congressman Pease and Congresswoman Kennelly, and 12 other members from every region of the country joined with me to take a hard look at how our employment and training systems were working, or not working as the case might be. After months of study we were able to produce a framework for a comprehensive employment and training system.

The principles of such a system are simple. They are:

(1) Adequate unemployment compensation benefits and covergae.

(2) Early identification of employment and re-employment problems.

(3) Access to employment assistance including training, retraining and support services.

(4) Innovation, flexibility and coordination with all related government and private sector programs.

Together with Congressman Pease and other interested members, I am now putting together a comprehensive reform bill, drawn from the report of the Task Force. Unfortunately, this legislation was not ready for introduction prior to this hearing. I would, however, like to discuss briefly some of the points I hope to address in a comprehensive bill.

REFORM OF UI/ES FUNDING MECHANISM

Perhaps the most fundamental need of any employment system is an effective labor exchange. An effective labor exchange in today's world must go beyond simple job listings to a pro-active employment agency. The employment service or job service as it is known in some states was first created to enforce the job search requirements of our unemployment insurance system. Today, more than 15 million people register at the 2,400 local employment service agencies each year. However, only about 7% of all new jobs are filled through the Employment Service. Staffing has declined from 30,000 in 1981 to a current level of 22,700. Individual counseling, testing, referrals to other agencies, and effective outreach to the business community have become all but impossible as inadequate funding mechanisms have forced hundreds of offices to close.

The employment service is now structured so that the Federal government pays the bills while the states administer the program. This system has the effect of leaving the employment service outside of normal oversight channels. The answer, however, is not to abdicate the federal role by turning the labor exchange function over to the states as the Administration has proposed in its devolution proposal. The result of this type of approach will undoubtedly be a fragmented system, a clear retreat in an era of ever growing interdependence. The federal/state partnership must be strengthened, not abandoned.

In the legislation I am drafting, I intend to propose a 4 state demonstration in which a portion of the current surplus in the Unemployment Insurance Administration fund would be made available on a matching basis to the states. These additional funds could be used to create a "state of the art" labor market exchange by allowing the states to experiment with new ways of helping the jobless find work. The funds could be used for automation, for new offices, for addtional personnel, for job development, for training, in short for whatever formula will improve the performance of the employment service. It is my hope that if given the opportunity and the incentives, the states would be prepared to begin contributing their own resources to broaden the financial base of the employment service. In addition, the commitment of state funds will stimulate governors, state legislatures, and state departments of labor and education to take a new look at the problems and potentials of the service.

In tandem with the above demonstration, I also intend to propose a demonstration of a flexible "needs" based formula for funding the administration of the Unemployment Insurance program. As anyone who is familiar with the Unemployment Insurance program knows, the current mechanism for determining a state's annual administration grant has got to be one of the Rube Goldberg schemes of all time. Each state is required to spend thousands of dollars and hundreds of person hours determining how long it takes their unemployment insurance personnel to pick up a phone, fill out a form, or take in a claim. The end results of these detailed studies are reported back to Washington where the Department of Labor makes its best guess on the number of claims a state will handle in the upcoming year. This information is then run through a torturous process to determine an appropriate grant for UI administration.

This "cost" based system of funding while fine in theory is absurd in practice. One has only to look at the annual supplemental appropriation for non-personnel services (NPS) that have become so necessary these past few years to see that the current system is not working.

As an alternative, I believe a "needs" based funding formula driven by the size of the state's labor force would provide a more stable and predictable funding source. Of course, a separate "contingency" account to cover costs associated with any upswing in unemployment will always be necessary, but the arbitrariness of the current formula must be addressed.

MAKING UI FLEXIBLE

This Committee has worked for years to improve the flexibility of the unemployment compensation system. In 1972, the law was changed to require that unemployment compensation be paid to people who were in state approved training. In 1977, the law was amended to allow experimentation with short-time compensation. Both of these activities need to be expanded.

Currently only a fraction of those that might benefit from training while they are collecting UI are able to receive benefits while upgrading their skills. This stems from a number of reasons, and Congresswoman Kennelly has introduced legislation, H.R. 1347, which would address some of these. I am working with Mrs. Kennelly's office and the staff of the Northeast Midwest Coalition to see if there are additional steps we might take to improve this important linkage to training.

Short-time compensation is an arrangement, during periods of economic down turns, by which employers and employees may choose to reduce the number of hours of all workers instead of laying off some portion of the workforce. The unemployment compensation that would have been paid out to workers on layoff is instead divided amongst all the affected workers. California was the first state to try short-time compensation in 1978. Since that time, Arizona, Oregon, Washington, Florida and Maryland have adopted short-time compensation and similar legislation is pending in several other states. Experience to date indicates that program costs are minimal because the unemployment benefits would be paid out in any case. In fact, there may actually be a savings because of lower administrative, job search and counseling costs. In addition, the reduced fear of layoffs has in a number of instance lead to an atmosphere of labor/management cooperation that can only be healthy for the U.S. economy. The U.S. Department of Labor should actively promote the short-time compensation option through technical assistance to states, businesses and labor.

EARLY IDENTIFICATION

The unemployment insurance system should actively promote job search and retraining assistance for those who need it. Early identification of people who are having trouble getting back into the workforce is essential. Too often workers collect their full 26 weeks of benefits before seeking help. We must develop systems to identify the jobless most at risk of long term unemployment and move actively to help them. This effort will depend in part on an adequately funded employment service, but it also will require the development of identification techniques and full coordination with available programs of assistance such as vocational education, job clubs, day care and everything in between. I strongly believe that focused research and demonstration projects to promote early identification and to provide special assistance, funded by the Department of Labor in a few states, would go a long way toward responding to this critical need.

It is absolute gospel among employment and training experts that the earlier assistance can be provided to the jobless, the better the chances are for rapid re-employment. Unfortunately, one of the simplest ideas in this area - legislation requiring advance notice of plant closings and large scale layoffs has completely polarized business and labor. As you know, a compromise version of this legislation was defeated on the House floor last year. There may be, however, another way to reach a similar result - for after all, many responsible corporations are already providing advance notice. An idea that I am now exploring is to tie the cost of providing unemployment compensation for a firm's workers to an advance notice provision. In this way, businesses that act responsibly would receive an economic benefit while those that lock their gates without notice would accept the consequences. Clearly any such provision would have to be carefully designed so as not to sink already troubled firms, but a carrot and stick approach may indeed provide the opening to move beyond the current impasse on this issue.

It is, however, not enough to simply provide advance notice. What is needed is a coordinated response to major dislocation. Our neighbors to the north have developed what they call the "Canadian Consultative Service" in which teams of trained professionals move into a community facing massive job loss and provide necessary counseling, assessment and referral services. In this way scarce resources can be focused were they are most needed and the dislocated can receive the services they need. While I am aware I am moving beyond the jurisdiction of this Committee, I think it is important that those who are looking for solutions in this area look beyond narrow lines of jurisdiction for answers. It is clear to me that we can no longer afford to consider programs as separate entities. In the above example of advance notice and plant closing strike forces the link is absolutely clear while either of these by themselves can at best be only partially successful.

COORDINATION

Coordination must become a watchword of our unemployment/adjustment system. Title V of the Job Training Partnership Act, which amended Wagner-Peyser, contains specific authorization and admonitions to the states to coordinate the efforts of the JTPA agencies and the employment service. To date, I do not believe these efforts have been forthcoming. The changes I will propose for funding both the employment service and the Unemployment Insurance Administration are, in part, designed to address this need. But it also seems clear that we must move farther. How this can be done legislatively is less apparent. This Committee and the

Education and Labor Committee provided ample authority for coordination in the 1982 amendments. What may be needed is, again, a demonstration by the U.S. Department of Labor together with technical assistance to move the disparate communities of employment security and job training together.

INNOVATION

The worker adjustment system in the U.S. is an evolving one, based on over 50 years of experience since the New Deal and driven by our fast changing world. As we look around the United States today, we can find numerous examples of new and exciting job training programs that are working well. I strongly believe that new and innovative ideas, more efficient ways of providing services and better methods of maintaining America's competitive edge should always be explored. Congressmen Stark and Wyden have introduced legislation that would allow individuals to have more flexibility in utilizing their unemployment compensation. These include allowing beneficiaries who have the necessary experience and support to "cash out" their remaining benefits to enable them to set up new businesses. A second proposal would let workers whose skills are no longer in demand locally and who have good prospects elsewhere to use some portion of their remaining entitlement to relocate. These and other innovative ideas should be explored on a trial basis to learn new ways to assist the unemployed.

ADEQUATE BENEFITS AND COVERAGE

I would like to close the circle now and return to my original point, too many jobless are ineligible for unemployment compensation. In part, this stems from the failure of our current supplemental benefit system. Twice before I have appeared before this Committee to urge the reform of the Extended Benefit program. Since I last testified before you, Congressman Pease has been working to refine his EB reform bill, and it is my understanding that he will introduce legislation in the near future. This legislation may have been modified, but the principles of EB reform remain the same. First, there must be a sliding scale of benefits tied to the level of unemployment in a state. The current 13 weeks or nothing EB program is far too inflexible. Second, the state's share of the cost of a supplemental benefit program should also be tied to the level of unemployment. The current program penalizes just those states that are hardest hit by any economic down turn by asking them to pick up half the cost when they are least able to afford it. Finally, the uneveness of the current economic expansion makes the need for sub-state triggers even more necessary. There are far too many counties with double digit unemployment tucked inside states where the level of joblessness is below the national average.

Unfortunately, simply fixing the EB program will not answer the lack of protection that two thirds of the unemployed now face. The naked truth is that we simply do not know why so few people are collecting unemployment. The last serious study that I am aware of was done in 1983 by Gary Burtless of the Brookings Institution. Dr. Burtless, at the request of Congress - which was at that time considering an extension of the now expired FSC program - was asked to explain the divergence of the Insured Unemployment Rate (IUR) and the Total Unemployment Rate (TUR), the usual measure of unemployment. While Dr. Burtless was able to document the problem quite clearly, he was unable to find a satisfying explanation. Since that time the numbers have only gotten worse.

I strongly believe that this question should be the highest priority for U.S. Department of Labor and academicians who study the workforce and labor economics. I am sorry that I can not offer a set of recommendations on how our laws might be amended so that American workers who lose their jobs can expect the income protection that they deserve, but we do not have enough information at this time. Instead, I will propose an intensive study of the problem by U.S. DOL and as well as specific steps we might take to remedy the situation.

I have outlined a series of proposals that I believe this Committee and this Congress should undertake in the near term to address the needs of a rapidly changing world. We must create an adjustment system that moves dislocated workers quickly into new occupations, brings the disadvantaged into the workforce, and provides opportunities and incentives for everyone to upgrade their skills. Unemployment compensation reform is a critical part of this agenda.

Mr. MATSUI. Thank you very much for that very thoughtful presentation, Sandy. I think that what you have said is absolutely correct. Statistics that the subcommittee has revealed that in 1975, the number of people receiving unemployment benefits was 76 percent. In October of 1985, some 10 years later, only 26 percent were receiving unemployment benefits. This basically means that we have to significantly readjust the way we treat unemployment benefits at this time.

The points you have made in your statement underscore that. One question that we will have to deal with, obviously, is the one you raised in conclusion, the financing mechanism. I think embedded within our tradition of the handling of unemployment insurance, we are going to maintain the trust fund concept as well as the concept that both the employer and employee contribute to those unemployment benefits.

In terms of the whole retraining effort, which is a relatively new concept that we are pursuing at this time, we must ask a number of questions. Should retraining efforts be paid for by one of the levels of Government or should that be handled through the employer/employee payroll tax mechanism? Should that be the responsibility of industry and business or shall that be the responsibility of Government?

Mr. LEVIN. It strikes me that the only feasible answer is there has to be a sharing, a partnership. These programs have to be tied together. We have to tie JTPA funded publicly with our whole unemployment insurance system.

The notion in the legislative body often is don't take things comprehensively because the whole ship will sink; look at it piece by piece. My guess is that with this whole area, unless we look at it comprehensively, no piece will move. That doesn't mean one has to move all in one package in an omnibus form, but there has to be that holistic, if I might use that word, look at the problem.

I don't think without reform there will be more resources. I don't think reform by itself will be enough. I think you need both very much and in practically every case, there is going to have to be a sharing of responsibilities, including a sharing of funding.

Mr. MATSUI. There are two aspects to this hearing and the series of hearings that Representative Ford is holding: One, is providing benefits while a person is unemployed and second, the area of retraining for these that are chronically unemployed. If we can provide those two elements, benefits and retraining, we will basically have dealt with this issue.

Assuming we are able to we do that, we must look for the funding mechanisms. Should we require the employees, those employees who are currently in the work force, to pay a portion of the costs by requiring them to contribute more to unemployment benefits? Should we raise the UI tax on the employers? Should we take it out of general funds and use the general funds to sponsor the job training portion or at least a portion of the job training element of this program?

Those are the issues we will have to deal with in terms of the funding.

Mr. LEVIN. It seems to me, again, to put it quite clearly, that we are going to need to use both the traditional unemployment comp finance method plus general fund programs and make sure these programs are tied together.

One of the problems today is that they are not tied together and in a sense, the ways the laws are written connecting them, if not prohibited, coordination has been difficult. I remember this so clearly. It used to be that employers did not want employees retrained while they were drawing benefits on the account of those employers. The whole mindset was, well, we want those employees back; we don't want what we pay in tax used to retrain those workers for someplace else. That was when we had the model of people going into a job and staying there a lifetime.

What we haven't done is to modify and really dramatically reform our system to the changed fact; and that is people are going to change jobs many, many times during their work life, as I mentioned earlier. Another fact is there remains a major nucleus of people in this country who simply aren't in the work force, who have simply been out of it and left out of it.

There is no way, in my judgment, to finance this except through a combination of resources; no way to do it. If we don't do that—let me mention one fact that employers of America and the whole country has to look at.

While the work force is aging and America is aging and the number of younger people, the proportion of younger people in the population is dropping, the number of youth proportionately from groups that traditionally in our society have suffered from unemployment, the proportion of those youth is going up dramatically.

If we don't begin to train those who have been out of the work flow, we are going to end up with a society unprepared for international competition.

Mr. **Matsui**. This is my last question. Would you have any problems if, in pursuit of trying to come up with a program that takes care of the security aspect as well as the job-training components, we had an increase in the payroll tax that would be evenly applied to the employer and employee, in addition to the use of general fund money? Would that be a problem with you at all, if it was necessary in order to come up with a good program that would satisfy the needs of those people who are structurally unemployed at this time?

Mr. **Levin**. I am willing to do virtually anything to get a hold of this problem and that would include that kind of shared participation and increased revenues from the public treasury. This is one of the areas that is getting away from us; it truly is. In a word, as part of a comprehensive approach, I would support that kind of a sharing of the burden.

Mr. **Matsui**. I recognize your answer is only on the basis of a comprehensive approach.

Mr. **Levin**. Absolutely.

Mr. **Matsui**. Thank you. Mr. Pease.

Mr. **Pease**. Thank you, Mr. Chairman. Thank you, Sandy, for your excellent testimony.

Let me say publicly and for the record what a pleasure it was for me to serve on the unemployment task force that you chaired so very well.

I was interested in your testimony in a couple of respects, especially in your comment on page 3, that only about 7 percent of all new jobs are filled through the State employment services. We have had the same experience in Ohio where our employment service has two divisions in each office: one to dispense the unemployment checks, and the other to place people in jobs. There certainly has been a lessened emphasis on placing people in jobs, to the point that in a lot of our communities, very few employers even list their jobs with the State employment service. Part of that, I gather, is because the employment services don't have enough personnel for outreach services, to go out and talk with employers and find out what their needs are.

I think it is entirely in order and a good suggestion for us to try to beef up that side of the employment service equation. In fact, Mr. Chairman, we ought to have some oversight hearings in this committee to find out why it is, aside from budget cutbacks, that the employment service portion of these offices has fallen off so dramatically in the last few years.

Mr. Levin, I was also interested in your comment that now is the time to act. I agree with you that now is the time to act. I said as much in testimony I gave earlier.

As far as changes in unemployment compensation are concerned, a lot of the reforms that we have in mind would require changes in the State laws. That means we have to allow time for State legislatures to meet. We probably ought to have an effective date for most of the provisions of a reform bill some 18 months after the passage of the bill. It seems to me now is the time, before we have a crisis in unemployment, to go ahead and put the new law in place and give the State legislatures a chance to adjust State laws while there is still an opportunity. Otherwise, when unemployment goes skyrocketing again, we will come rushing into this committee and pass an extension of FSC or a new FSC program, and the opportunity for reform will have gone by the boards, for the reason that we can't wait for reform. We have to just get the money out to people.

I think we can afford to do it as well if we and the administration take a serious look at the triggering levels in the reform bill that some of us have already introduced. I think it is arguable, that, with the fairly conservative trigger levels in our bill, our proposed plan could wind up costing the Federal Government less money in a substantial unemployment upturn than throwing money into a newly revised FSC program all of a sudden.

One characteristic, as you know, of the most recent FSC program was to provide at least 8 weeks of supplemental benefits to every State, regardless of the level of unemployment in a given State.

I commend you for your testimony. I think it was excellent testimony. Obviously, that didn't surprise me at all because you have done so much work and good thinking on this subject.

So I commend you and say that I, for one, would be delighted to work with you in the months ahead.

Mr. **Levin**. Thank you.

Mr. **Frenzel**. Thank you, Mr. Chairman.

Sandy, I was not here for your whole presentation, but I reviewed it briefly. It is correct that you did give a wonderful overview and we are impressed with your knowledge and with a number of the suggestions you have made.

Neither you nor members of the committee seem to mourn the fact that the U.S. Employment Service does not do more or is underfunded. As I recall, ever since I have been familiar with the program it has been kind of a scorned stepchild anyway, an employment service of last resort. Is that your experience?

Mr. LEVIN. Yes; but there was a reason for it. I mean, the Employment Service evolved in a different era. It was part of a police mechanism, in a sense to police the laws—the requirements that people be looking for work.

And as we have been discussing, the sad thing is that the needs have changed these last couple of decades and there now is the need for employment service skills.

The JTPA has shown, in my judgment and in the judgment of those better informed than I, that we are not helpless and hapless, that creative steps can be taken in terms of preparing people to look for other work. But JTPA is touching just a small percentage of people in need and it really is a crying shame when we have a mechanism like ES that we are not converting it to the needs of today but we are shrinking it.

Mr. FRENZEL. One of our problems has been that we are not getting people to JTPA or into the retraining programs that Mr. Pease has taken such a strong role in trying to maintain through the TAA. We have, apparently, great difficulty in convincing people that our programs ought to retrain, relocate, and look for new skills, rather than just be some kind of an income maintenance program.

Is there a future in designated areas in demanding that unemployment compensation be accompanied by some kind of upgrading in skills or redefining skills?

Mr. LEVIN. I think the basic answer is yes; we are moving toward a system that says to people who receive benefits that you should also, given the circumstances—it depends on the particular circumstances—but where it otherwise makes sense, you should receive training and retraining.

But it has to be not as a punitive measure, regardless of the system we are talking about, but as an opportunity. We have a system that really inhibits combining retraining with unemployment insurance, instead of encouraging an individual to want to combine training with unemployment insurance with some kind of maintenance.

As you know, in many, many States, you cannot do that.

Mr. FRENZEL. I understand that. Is that part of your package?

Mr. LEVIN. Yes.

Mr. FRENZEL. Some sort of mandatory retraining, at least in circumstances where it is obvious that jobs are not going to be there anymore. One of the problems that one of our ex-colleagues, Mr. Steiger and I, have had on this subcommittee since it was first formed was that every time we had a problem we extended everyone's unemployment compensation.

That meant they stayed longer, waiting to be recalled to a job that often was never going to be there. We would like to have some assurance that that was not what happened the next time we have a downturn.

Mr. LEVIN. I would say to you that you work to provide the resources in this country for retraining and there will not be resistance to tying unemployment to retraining where it makes sense to do that. The problem is, as has been true in other programs, that instead of training being looked upon as something that was an opportunity for somebody, it was looked upon as a way to essentially do them out of benefits.

And we have to change our frame of reference here and realize that those two have to go together. And I think we have seen, from experiments in Massachusetts—and by the way, also in Michigan, though there has been less publicity about that—that where you combine, in those cases, training with governmental assistance programs, AFDC in those two cases, that most people are very responsive.

But there has to be training that is well done and training for existing jobs, not theoretical jobs.

Mr. FRENZEL. I agree with you.

Mr. Chairman, I have used up more than my time. I would ask one final question.

If you achieved reform, would you be willing to coordinate the retraining programs of TAA and UC into one program?

Mr. LEVIN. My feeling is, yes. I just want to make it very clear. I would go down in flames in support of TAA. I know, I have, along with some of your colleagues.

Because there is no alternative. You put it into a comprehensive framework, I will give it up in a minute. It is imperfect. It is not consistent, fully. But it has been the only vehicle in town.

Mr. FRENZEL. Thank you, very much.

Mr. Chairman, I yield the balance of my time.

I appreciate the gentleman's ideas. He is obviously very active in the field and very helpful to the subcommittee.

Mr. MATSUI. Sandy, we all want to thank you very much for your testimony and time today. We would look forward to working with you and drawing upon your expertise as we try to develop a bill. Thank you.

Mr. LEVIN. It is very mutual. Thank you very much.

Mr. MATSUI. I would like to call Representative Nancy Johnson from Connecticut. Nancy.

Incidentally, Chairman Ford is on the floor of the House at this time, debating the unemployed parent provision of the reconciliation bill. As soon as that is over, he will return to chair this hearing.

Nancy, you may proceed. Your written testimony will be submitted for the record. However, you may read from it or you may summarize it.

STATEMENT OF HON. NANCY L. JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CONNECTICUT

Mrs. JOHNSON. Thank you I will summarize it.

First of all, I agree with a lot of things that Sandy has said and Sandy has given an overview that I think is important and worthy.

And I also appreciate the amount of this hearing that the members have already taken up and that there are public individuals that need and desire time.

But I do want to express my belief that there is an urgent need for the United States to have a more comprehensive policy governing worker training and retraining, that we need the kind of comprehensive approach that would reflect an understanding of the importance of human capital, not only the importance of human development and people's own individual lives, but of human capital in our competitive environment.

Skill level, the quality of employees, and people's contribution to productivity are absolutely every bit as important as state-of-the-art technology, sophisticated inventory systems, contemporary space, and so on and so forth, to productivity and to being a strong, vital economy, as well as able to protect ourselves and provide for our national security and for that of other free nations.

So I think it is extremely important that our human resources policy be comprehensive and be something that can stand up in a global economy where the competition is very great.

Second, I think our human resources policy has to acknowledge a radical change in our world. And that is the passive change. We have always lived with change. We were a frontier society. Life is a matter of change.

But the pace at which industry, means of production, and all of those things are changing is a pace that we have never been called upon to live with before. So the issue of outmoded skills, the issue of inability to move from career to career, is a much more serious issue in our society and has the potential to devastate lives of individuals and families and of communities in a way it has not in preceding decades.

And certainly, with a shrinking rate of population growth, the issue of full usage of the skills and abilities of our people is an issue in which we all have a stake. We will not be able to support unemployment compensation and Medicare if everybody is not working to their full potential in the decades ahead.

So I think what we need, at this time, is a human resources policy, worker training and retraining policy, that is comprehensive, that anticipates change, that is capable of responding quickly to change wherever it is located and in a relevant and effective fashion.

Many of the ideas you have before you today are much needed. I would remind you of the testimony that I have given before this committee in other circumstances, on my National Training Incentives Act, which my colleague Bill Clinger and I introduced some months ago, although the concept of a comprehensive tax credit for the costs of training, comparable to the tax credit that we have in the past given to our businesses for investing in capital and space, did not become part of the tax bill.

Nonetheless, I think it represents that kind of comprehensive view that I hope you will seek in your work in reforming our unemployment compensation system.

I think we want things that stimulate on-the-job training. We want things that will enable small businesses to participate and not just large businesses, and therefore is not too heavily laden with regulation. We need much better information and referral services.

Barbara's bill—my colleague from Connecticut, Congresswoman Kennelly, her bill that recognizes the need to upgrade the information, the technical support system for the unemployed, is right on target, in my experience.

I think Representative Stark's bill, that looks for a more flexible system that anticipates change by enabling employees to work part time and receive unemployment compensation part time while they are in training, is another very worthy initiative.

Requiring States to—mandating, in fact, that States allow or require people to participate in training while they are unemployed is, in my estimation, a healthy initiative. Not full-time participation in training, but half-time participation in training, so it does leave time for the job search, but also so that unemployment is never identified with, in a sense, backsliding, going to sea, letting one's skills and abilities lay fallow.

Unemployment should be seen as a time of growth and development. Skill change, broadening your capabilities, having more options and providing more resources for your next employ.

The quality of our information and referral services is truly inadequate to the dynamic economy that we live with, to the pace of change in our society, and to the mobility that is also a part of our circumstances.

I think that we need to have a reform of our unemployment compensation system that recognizes not only the State's responsibility to implement it, but also our shared stake in the quality of the implementation.

So I do want to express my support for a more mandatory response to participation in training and development programs during periods of unemployment.

As to funding, while I know it is not a popular position to take at this moment, I do think that tax credits have proved to be a very useful instrument of public policy. They do tend to minimize the cost. They do tend to put the tax dollars where the jobs are available, out there in the on the job training sites.

And I hope that we can, through for example Mr. Stark's approach and possibly recognition in the Tax Code of the cost of training for those very employees, especially on a part-time basis, develop a much more flexible, responsive, and compelling training policy that permeates other policies, such as the income support policy for periods of unemployment.

Thank you very much. I appreciate the work of this committee and I think the topic that you are dealing with is of great importance to all of us.

[The prepared statement follows:]

STATEMENT OF
REPRESENTATIVE NANCY L. JOHNSON
BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION
MARCH 18, 1986

Thank you, Mr. Chairman, and I appreciate the opportunity to join you today to discuss how we can improve programs to train dislocated workers for good jobs, jobs with the promise of a better future.

Our topic for today -- job security and opportunity -- is particularly germaine to many of the problems faced by people in my congressional district. Many individuals in towns like New Britain, Bristol, and Torrington, Connecticut, discovered during the last recession that shifts in the economy can mean major suffering and in some cases a significant redirection of lifestyles and occupation.

I particularly want to share with you a few, brief comments on H.R. 1219, the National Training Incentives Act, which I introduced with Rep. Bill Clinger on behalf of the 35-member House Wednesday Group. The National Training Incentives Act is designed to keep American workers' skills apace with technology and to prevent workers whose jobs are displaced by technological advancements from being thrown out of work. While critical to ensure job security for the worker, upgraded skills will also mean improved productivity for the employer.

My job retraining act encourages firms to invest in research and capital equipment by providing employers with a 25 percent tax credit on their investment for worker retraining. It also permits unemployed individuals to draw funds, without penalty or taxation, from their Individual Retirement Accounts (IRAs) or other annuity accounts to pay for retraining.

Many Americans today face the anguishing possibility that their skills will become obsolete and that prolonged mid-life unemployment will destroy their accomplishments and hopes for the future. My legislation would stimulate investment in America's hottest commodity, its workers. At a time when our international trade deficit continues to break records, job retraining stands as an aggressive way for our nation's industries to regain their competitive edge in the global marketplace through technological leadership.

In addition, there is a section in the bill which would reinforce current law that allows unemployed people to take part in job training and retraining programs without having to forfeit their unemployment compensation benefits. We must insist that all states adhere to the principle that allows people who are receiving compensation to be in training programs at the same time. Most states now do not allow unemployed people to be part of retraining efforts because, as soon as they participate, they are considered `unavailable for unemployment'. Well, if unemployed individuals are willing to upgrade their skills, if they are willing to take training in areas that are unfamiliar to them, then we should applaud and support that.

I believe we also need improvements in job referral services so that people who are unemployed have much greater access to information about available jobs.

As you are aware, Mr. Chairman, Mr. Clinger and I have testified previously before the Committee on H.R. 1219. Last July, we pressed for inclusion of the retraining credit proposal in the tax reform legislation. While we regret that the Committee's final omnibus tax package did not include the retraining provision, we were encouraged by the reception we received before your panel and will continue to press for enactment of aggressive retraining legislation.

Thank you, again, for allowing me this time to urge your support, and I commend you and the other members of the panel for your efforts in the job training area.

Mr. MATSUI. Thank you, Nancy.

I would like to ask Mr. Frenzel, do you have any comments or questions?

Mr. FRENZEL. Yes; I want to thank the Congresswoman for her good counsel and advice. You sit on a committee that oversees the Jobs Partnership Training Act which is what we have out there now. We, of course, look for improvement in that. We look for coordination and we look to you, in your committee to present us with these ideas.

The idea of a tax credit is a very attractive one, to me. The problem is that we cannot even seem to extend the targeted jobs tax credit. I think if we accept the experience that we went through for 6 months in the last half of last year, it is relatively unlikely that we will be seeing new tax credits, short of a radical change in the direction that tax reform bill is going in the Senate. Or else some kind of different economic conditions would have to exist in the country, where we think it is absolutely essential to make a change.

I was interested in your statement that unemployment compensation has to be seen as a transition period and you have to take into account the providing of new skills and that somehow, in some circumstances, has to be a mandatory part of the program.

I think if this committee does not get moving in that direction, we are going to find that that is the equivalent of work fare spreading out there on the table. The country is going to demand it.

Mrs. JOHNSON. You know, I strongly feel—and I think most of this committee knows this from my welfare reform bill—there is probably nothing more debilitating than being faced with the prospect of doing nothing. That pulls you out of the mainstream. You cease to have contacts with people who are out there working and the people who know about job openings.

And if there is one thing we should not allow to happen is people who are unemployed to get sort of disconnected from the dynamic of the productive world.

I think that could be a very fruitful new direction, just as I think welfare reform ought to include the same kind of mandatory employment, training, education component, but again half time.

I think those things can be fruitful for people and keep them a part of the communities that they reside in, of the productivity system that they depend on, and of the economy in making the contacts that are necessary for opportunity.

Mr. FRENZEL. Thank you.

Clearly, nobody intends that this compensation program be an incentive for indolence. But it has been demonstrated that that is the case in certain instances.

We appreciate your good work and thank you for coming.

I yield the balance of my time.

Mr. MATSUI. Mrs. Kennelly.

Mrs. KENNELLY. I want to thank Congresswoman Johnson for her testimony and for her continuing work with this committee on job training. Also, I have to commend the Congresswoman for doing it at a time when the State has low unemployment. This is the time we should be trying to solve these problems.

And also, Mrs. Johnson, Nancy, I would like to tell you that under the leadership of Chairman Ford, we are doing an indepth study on training and job opportunities for AFDC recipients and we intend to come out with a bill, and we would appreciate you working with us on that, too.

Thank you for your testimony.

Mr. MATSUI. Thank you very much, Nancy. We appreciate your testimony and we will be looking forward to working with you.

Mrs. JOHNSON. Thank you.

Mr. MATSUI. I would like to call Representatives Durbin and Boehlert to testify.

Gentlemen, your written testimony will be submitted for the record. You may, however, either read from it or from a shorter summary, if you would like.

Mr. Durbin.

STATEMENT OF HON. RICHARD J. DURBIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. DURBIN. Thank you, Mr. Chairman and members of the committee.

Having sat through so many committees where that advice has been given and ignored, I am going to take it, and I won't read my testimony or really spend much time summarizing it because I think it speaks for itself.

Mr. FRENZEL. You will earn the undying gratitude of the committee. [Laughter.]

Mr. DURBIN. I know that. I am hoping to get on your good side at the outset here. Let me tell you that I think most of the discussion that I have overheard sitting off in the corner for the last few minutes has hit on the major topics that concern us, and the reason that Congressman Boehlert and I have introduced our individual training account legislation.

It is fairly clear to me that although the American people can identify retraining as a major problem, we are not prepared to spend the money to do anything about it. When I look at what is happening in my home State of Illinois, with massive unemployment, and see the problems that we are having even funding a successful job training program, I realize that there are some forces at work here, primarily budgetary, which are going to offer resistance to our making a real dedicated effort to solving this problem.

You are in an enviable position on this committee, and I say that after having visited other committees preaching my same gospel. It appears to me that you have the wherewithal that others don't to attack this problem, primarily through the Tax Code.

I know that we are in the midst of tax reform and people are resistant to change in midstream, but I hope you will consider the fact that you may be our last hope; that if the Ways and Means Committee is not prepared to take this problem on, perhaps nothing will be done about it. Most of us realize the problems that will be created by that lack of action.

Those of us from the Midwestern States and Northeastern States, of course, have to meet with people on a regular basis: farmers, factory workers who have been displaced from their jobs and have no hope and nowhere to turn. These are people who come to their Congressmen as a last resort and desperately looking for some sort of help.

We also have another problem that faces this committee, the Congress, and the Nation, and that is the whole problem of our trade. There is, of course, increasing pressure on Congress to pass protectionist legislation, and part of that force comes from the fact that the work force cannot change. If workers can't see an opportunity beyond the current job, then they are going to fight like the dickens to keep that current job at any cost, whether it is tariff or a subsidy or whatever is necessary.

So I think that if we create this mechanism for an ordinary evolution, a peaceful evolution, that it is going to take a lot of the pressure off Congress in the trade area, and I think that certainly is something that we ought to look to. I think we also have to consider the present UI system and the fact, as Congressman Frenzel mentioned earlier, how many times we have been asked to extend the benefits on and on. That, again, as was stated by Congressman Levin and Congresswoman Johnson, is an act of desperation.

My support of the trade adjustment assistance in my hometown is a perfect example. Fiat-Allis, the largest private employer in Springfield, IL, the State capital, closed down last July, and in so doing put more than 600 workers on the street. For most of these people, the only thing that keeps their family fed, clothes on their back, the rent paid, and keeps them going while they are trying to find another job is trade adjustment assistance, and as of last December 19, it was cut off.

Of course, I have been fighting, as others have, to try to restore it, but it shows when you have so few options available and so few avenues to follow, that we try desperately to use what is there.

The individual training account addresses the problem of the dislocated worker, and as the statistics show in my testimony, these are people that have a very difficult time ever finding another job.

At this point I would like to turn it over to my colleague and cosponsor of the legislation, Congressman Sherry Boehlert.

[The prepared statement follows:]

TESTIMONY

Rep. Richard J. Durbin of Illinois

Subcommittee on Public Assistance and Unemployment Compensation

March 18, 1986

Mr. Chairman,

I welcome the opportunity to testify before your Subcommittee about legislation I have introduced with my colleague, Rep. Sherry Boehlert, to use the administrative structure of the UI system to run a new program that will meet the needs of growing numbers of dislocated workers. That legislation is H.R. 26, the National Individual Training Account Act. The bill has broad bipartisan support with close to one hundred cosponsors from across the ideological spectrum.

Last week we opened our morning newspapers to read the unwelcome news that our national unemployment rate had risen in February from 6.7% to 7.3%. This increase represents the steepest monthly increase since President Reagan took office five years ago. It offers graphic evidence of the weakness underlying our current economic recovery.

For my own state of Illinois, the figures demonstrate something that we have suspected for a long time -- that the gradual trickle of manufacturing jobs out of Illinois has become a steady stream. In February alone, the unemployment rate in my state rose 1.8 percentage points to 9.5%. This is the largest monthly increase ever recorded in Illinois and puts our state's unemployment rate at more than two percentage points above the national average. Statewide, we lost 150,000 manufacturing jobs in one month.

Department of Labor officials ascribe much of the jump in Illinois' unemployment rate to cutbacks, employee furloughs and factory closings among manufacturing companies. These newly-unemployed workers now join the ranks of those already out of work, such as the 1,300 workers who lost their jobs in my home city of Springfield when a Fiat-Allis plant was forced to close down in the face of foreign competition.

Many of these newly unemployed workers are victims of economic change. They are not temporarily unemployed while changing jobs or waiting to be recalled to existing jobs. Instead, hundreds of thousands are permanently unemployed because their jobs have disappeared. The unemployed Fiat Allis assembly line worker in my district is a good example. His skills are no longer needed as foreign competition makes it cheaper to manufacture goods outside the United States.

A 1985 survey by the Bureau of Labor Statistics leaves little doubt about the scope and severity of the dislocated worker problem. Between 1979 and 1984, a total of 11.5 million workers were dislocated. Of these, 5.1 million had been on the job for three years or more.

Of the 5.1 million workers, only 60 percent were re-employed by 1984. More than one quarter of those who had lost their jobs -- 26 percent -- were still looking for work. Another 14 percent had dropped out of the workforce altogether. But these aggregate figures, troubling in and of themselves, mask some worrisome underlying trends.

These patterns document the unevenness and harshness of worker displacement. For example, of the 60 percent of workers who have succeeded in finding new employment, nearly half are earning less than in their former jobs. In addition, finding new employment has proven particularly difficult for certain groups who have traditionally been at a disadvantage in the workforce. Blacks, women, older workers and those with fewer skills have all had little success in finding new employment.

The dislocated worker problem will not take care of itself if we ignore it because the number of dislocated workers is likely to continue to grow. Economists estimate that the continuing shift from a manufacturing to a service economy could displace as many as 10 million more workers over the next two decades.

The needs of dislocated workers are not being met under existing programs. Very few private companies offer programs to assist displaced workers. It is becoming increasingly clear that Title III of the Job Training Partnership Act, the cornerstone of the Administration's plan to retrain these workers, is woefully inadequate to meet their needs. A recent OTA report found that, while millions of American workers are losing their jobs because of structural changes in the U.S. and world economies, only 5 percent are receiving any kind of retraining assistance under the Job Training Partnership Act.

My colleague Sherry Boehlert and I have introduced legislation which will go much further towards assisting these workers -- to their benefit and to the overall benefit of the economy -- without requiring large new appropriations. I turn to my colleague to explain the details of the ITA proposal. Thank you again for the opportunity to testify.

Co-Sponsors of H.R. 26, The National Individual Training Account Act

Reps. Richard Durbin and Sherwood Boehlert

1. Mary Rose Oakar
2. John LaFalce
3. Bernard Dwyer
4. Richard Gephardt
5. James Oberstar
6. Buddy MacKay
7. Mickey Leland
8. Louis Stokes
9. Claudine Schneider
10. Timothy Penny
11. Ted Weiss
12. Howard Wolpe
13. Henry Nowak
14. Cardiss Collins
15. Stewart McKinney
16. Robert Borski
17. Bruce Vento
18. Matthew Rinaldo
19. Robert Garcia
20. Jim Bates
21. Olympia Snowe
22. Marcy Kaptur
23. Jim Moody
24. Lane Evans
25. Bill Clinger
26. George Wortley
27. John McKernan
28. Brian Donnelly
29. Joseph Addabbo
30. Joe Kolter
31. Nicholas Mavroules
32. Lynn Martin
33. Edolphus Towns
34. James Weaver
35. Peter Kostmayer
36. Silvio Conte
37. Harold Volkmer
38. Newt Gingrich
39. Bob Edgar
40. Sam Gejdenson
41. James Sensenbrenner
42. Stan Lundine
43. Gerry Sikorski
44. James Jeffords
45. Major Owens
46. Tom Ridge
47. Bob Davis
48. William Coyne
49. Esteban Torres
50. Frank Horton
51. Hamilton Fish
52. Nick Rahall
53. Paul Henry
54. Dennis Eckart
55. Charles Rose
56. Mel Levine
57. Bob Traxler
58. Parren Mitchell
59. Nancy Johnson
60. Ron Coleman
61. Don Ritter
62. Jim Kolbe
63. Harold Ford
64. Matthew Martinez
65. Chester Atkins
66. Charles Hayes
67. Robert Mrazek
68. Helen Bentley
69. Ed Feighan
70. Austin Murphy
71. Chris Perkins
72. Vic Fazio
73. Matthew McHugh
74. Edward Madigan
75. Bill McCollum
76. Robert Torricelli
77. Gus Savage
78. Bob McEwen
79. Howard Nielsen
80. James Howard
81. Jaime Fuster
82. Bill Goodling
83. Robert Lagomarsino
84. Martin Frost
85. David Bonior
86. Doug Bereuter
87. Berkley Bedell
88. Terry Bruce
89. Solomon Ortiz
90. Marilyn Lloyd
91. Bob Wise
92. Doug Walgren
93. Beverly Byron
94. Walter Fauntroy
95. E. Clay Shaw

A Remedy for the Displaced-Worker Problem

By Sherwood Boehlert
and Richard J. Durbin

WASHINGTON — The strong expansion of the economy still blinds us to turbulent shifts in the nation's labor markets and, in particular, to the sad plight of the displaced worker. Of the millions unemployed, those who are changing jobs or waiting to be recalled are only temporarily out of work. But hundreds of thousands are unemployed because their jobs have permanently disappeared — the assembly-line worker who has lost his job to a robot, the office worker shunted aside by automated equipment, the steelworker whose company has been damaged by foreign imports. We should be paying much closer attention to this group.

A 1985 survey by the Bureau of Labor Statistics leaves little doubt about the scope and the severity of the nation's displaced worker problem. Between 1979 and 1984, a total of 11.5 million workers were dislocated. Of these, 5.1 million had been on the job for three years or more.

Forty percent of these 5.1 million workers were still out of work in 1985, and half who did find a job were earning less. But these aggregate figures, though troubling, fail to reveal how harsh and uneven the impact of displacement is.

Almost 60 percent of the dislocated 55- to 64-year-olds, for example, were unable to find a job. Women, blacks and Hispanics were twice as likely to remain unemployed as white males. And only 42 percent of those with low skills and limited education were able to find new jobs as against 75 percent of those who were technicians, professionals or managers.

Millions of workers face the prospect of displacement. This reflects technological advances and continuing shifts in consumer demands. But business and government remain ill-equipped to assist displaced workers acquire new and improved skills.

Only a few companies offer programs to assist dislocated workers. In the public sector, Federal adjustment assistance is snarled in an ineffective maze of 22 small, narrow, independent, underfunded programs, largely devoted to income maintenance rather than adjustment, and each depending on annual appropriations that face further cuts because of the Gramm-Rudman Balanced Budget Act.

The needs of the displaced workers are much too important to address in such uncoordinated fashion. What's needed is a comprehensive self-financing program that can assist workers obtain training and, if necessary, relocate. Ideally, such a system would allow affected workers to choose the kind of training they wish to undergo, when and where.

One approach would be a system of tax-free individual training accounts that workers could tap to pay for retraining — a voucher-based approach modeled on the nation's most successful training program, the G.I. Bill.

The plan would be financed by a voluntary savings-based system of limited contributions analogous to the Individual Retirement Account. Workers and employers would make tax-deductible contributions to the fund of eight-tenths of one percent of the worker's wage up to $250 per year until the account reaches $4,000. If a worker is displaced, the training account could be used, tax-free, in the form of a G.I. Bill-type voucher for training and reimbursement of moving expenses.

When workers retire, workers an employers would be refunded the unused contributions plus interes For tax purposes, the contribution would be deductible, as are those an an I.R.A. Since workers wou contribute a portion of the money the training account, they would ha every incentive to make wise use of Similarly, a company would have a incentive — the loss of company contributions — to retrain the worker o at least help him quickly find anothe job.

For workers, the benefits of a comprehensive displaced worker adju ment program, such as an individu training account, would be substantial.

And for the United States, th potential economic gains — mea ured by increased worker productivity, by diminished political pre sures for trade protectionism and b increased competitiveness — wou be no less welcome.

Sherwood Boehlert, Republican of New York, and Richard J. Durbin, Democrat of Illinois, are co-sponsors of the National Individual Training Act in the House of Representatives.

1-25-86 New York Times

STATEMENT OF HON. SHERWOOD BOEHLERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. BOEHLERT. In the spirit of this hearing, I, too, will be brief and outline specifically what ITA's are all about. Here is how the program would work. It is very basic.

An employee and an employer would each contribute eight-tenths of a percent of the worker's salary, up to a maximum of $250 a year, into an individual training account. The employee could deduct the full amount. That is an incentive for the contribution. The employer would get a 125-percent deduction.

The Federal Government would administer the program and the accounts, investing the money in Government securities. Interest paid to the account would be tax free. Contributions would cease when the account reached $4,000, but interest would continue to accrue.

Workers would be able to tap the accounts tax free to pay for retraining if they are laid off. The workers would be given a voucher to pay for tuition and expenses at the program of his or her choice, and up to $1,000 could be used for relocation if no jobs were available in the immediate area.

Upon retirement, the account would convert to an IRA, and the employer's remaining contribution plus his share of the interest would be returned to its source. The system has a whole number of advantages.

First of all, it is voluntary. That is extremely important. It involves the participation of business, labor, and government. Workers would control the expenditure of their money, limiting the opportunity for abuse. It would be immune from the vagaries of the budget process. Money would be available whenever a worker was laid off, no matter what the reason for the layoff, and it would facilitate rather than impede economic change.

It would increase the Nation's saving rate, and goodness knows we need to do that. It would not require the creation of a new bureaucracy, another plus. It would not tap existing unemployment funds. The accounts would move with the worker from job to job so there is portability, and it would correct some of the imbalance in our tax system, which heavily subsidizes the cost of capital but virtually ignores the cost of labor.

It is based on such a highly successful program as the GI bill, and we all know the handsome dividends that modest investment on the part of the U.S. Government has returned to the country.

ITA's are not the answer to the problem. They are a partial solution to a very serious problem. We have the support for this from the Business Higher Education Forum, from the Republican High Tech Task Force. We have got a whole bunch of diverse groups supporting us, and in the House of Representatives, our own colleagues. It ranges from Newt Gingrich to Ted Weiss, and any piece of legislation that can embrace that wide spectrum of political thought deserves to be given very serious consideration.

We are serious about this, as we know you are. We wish to avoid in 1992 the same catastrophic rate of unemployment and level of hopelessness and despair that the Nation faced in 1982 when we had the highest level of unemployment in my lifetime. We would like to avoid that, we know you would, too, and we thank you for the courtesy and for the opportunity to present our program for your consideration.

[The prepared statement follows:]

STATEMENT OF HON. SHERWOOD BOEHLERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, as Congressman Durbin has just documented, the unemployed may be forgotten, but they are not gone.

I could cite equally disturbing statistics from my own district in upstate New York, where unemployment remains stubbornly above the already high national average. Current programs are simply not up to the task of retraining the growing ranks of diplaced workers.

Congressman Durbin and I believe we've come up with a bill, H.R. 26, that would provide a long-term solution to the problem of dislocation.

Our bill would enable workers to insure themselves against future dislocation by opening Individual Training Accounts (ITAs) to which both they and their employer would contribute.

Here's how the program would work. An employee and employer would each contribute .8 percent of the worker's salary—up to a cap of $250 a year—to the account. The employee could deduct the full amount of the contribution; the employer would get a 125 percent deduction. The federal government would administer the accounts, investing the money in government securities. Interest paid to the account would be tax-free. Contributions would cease when the account reached $4,000, but interest would continue to accrue.

Workers would be able to tap the accounts tax-free to pay for retraining if they were laid off. The worker would be given a voucher to pay for tuition and expenses at the program of his or her choice. Up to $1,000 could be used for relocation if no jobs were available in the immediate area.

Upon retirement, the account would convert to an IRA, and the employer's remaining contribution plus his share of the interest would be returned to its source.

This system has a number of advantages:

It is voluntary.

It involves the participation of business, labor and government.

Workers would control the expenditure of the money, limiting the opportunity for abuse.

It would be immune from the vagaries of the budget process.

Money would be available whenever a worker was laid off, no matter what the reason for that layoff.

It would facilitate, rather than impede economic change.

It would increase the nation's saving rate.

It would not require the creation of a new bureaucracy.

It would not tap existing unemployment funds.

The accounts would move with the worker from job to job.

It wouid correct some of the imbalance in our tax system, which heavily subsidizes the cost of capital but virtually ignores the cost of labor.

It is based on such highly successful programs as Individual Retirement Accounts and the GI Bill.

ITA's are not the answer to our entire unemployment problem. People who have never worked need help. Current displaced workers need immediate assistance. But we believe this bill could go a long way toward ensuring that the dislocated worker problem is a temporary phenomenon. If we don't act now we're likely to find ourselves suffering from the same catastrophic unemployment in 1992 that we faced in 1982.

This bill has growing support. We're up to about 100 co-sponsors, ranging from Newt Gingrich to Ted Weiss. And we've got the backing of such groups as the Republican High Tech Task Force, the Business-Higher Education Forum and the Federal Legislation Committee of the New York County Bar Association.

This bill does not divide people along partisan or ideological or regional lines. It does pit those who are willing to try new solutions to new problems against those who are too mired in the past to see the problem or to recognize the solution.

I urge this Subcommittee to support H.R. 26.

Thank you for giving me the opportunity to testify.

Mr. MATSUI. Thank you.

Mr. **Frenzel**. Thank you very much, gentlemen. It is an interesting program, and unfortunately, as I said to Nancy before you got here, the kind of thing that would normally attract the eye of this committee but, in recent months, we have had great difficulty getting favorable consideration for any tax deduction or tax credit program.

I wish you a great deal of luck with it, but I think it is going to be like pulling deeply rooted teeth to find it.

How do you get into it? Do the employer and the employee both have to volunteer? You called it a voluntary program.

Mr. **Boehlert**. As a practical matter in most instances I would envision—and I will let Congressman Durbin give his interpretation—that the employees would sit down with the employer and say we like this program, we think it is a good concept; we would like to participate, and would actually negotiate with the employer.

Now, we have had hearings across the country on this bill, and the one that stands most vividly in my mind is one that we had in upstate New York. We had an employer from Amsterdam, NY, who said, you know, I thought this was a half-baked idea but you invited me and out of courtesy I thought I would attend the hearing, but before I attended the hearing, I looked over the proposal and I kind of liked it, and I talked to my employees about it and they kind of liked it too. And he said to us in that public hearing that if this becomes law, his company would be one of the first in the country to embrace it.

But essentially it is voluntary. It could be initiated by the employer and it could be initiated by the employees, but as a practical matter, in most instances I would imagine the employees would bring it to the attention of the employer.

Mr. **Frenzel**. Thank you.

Mr. Durbin.

Mr. **Durbin**. I would just add a couple of points. First, let me salute the Northeast-Midwest Coalition, which has helped us immensely in our efforts on this legislation, for which we have found support across the country. One of the things we are trying to do with this legislation is to change people's attitudes. For folks in my area who have lost their jobs at Caterpillar and Fiat-Allis, the major employers, I think that, given the opportunity, they will take advantage of a program like this, knowing that they need some help.

We need to try to imbue that ethic across the country, and I think this legislation might be a step in that direction. It will take some time. There will have to be some examples where it is used successfully for other people to think it is worth the investment, but I think it can happen.

I want to stress one thing Sherry said that I think hits an important point when we talk about where this is going. This is not going to solve the entire unemployment problem and training problem of America, nor is it designed to. It will primarily be extended, I think, to the workers who are beyond their first job, looking for their first job, and the workers in certain higher income categories. But once having proven itself, as we believe it will, it can be extended, and I believe it will be.

It won't satisfy the needs to provide basic literacy skills and other skills that we are still going to need other programs for, but I think it is a good step in the right direction.

Mr. **Frenzel**. Thank you very much. So do I. I wish you a lot of luck with it. I am not going to ask what the revenue estimate is on it because I don't want to know.

I yield the balance of my time.

Chairman **Ford**. Mrs. Kennelly.

Mr. **Boehlert**. I have got a modest answer to that.

Mrs. **Kennelly**. I was going to ask it.

Mr. **Boehlert**. It is estimated that if we had a million participants, the revenue loss to the Treasury would be $75 million. That is relatively insignificant.

Mrs. **Kennelly**. I was also going to thank you for your testimony.

Mr. **Boehlert**. One-quarter of 1 cent excise tax per pack of cigarettes; an excise tax we no longer have and I hope we can work cooperatively to get that——

Chairman **Ford**. Mr. Matsui.

Mr. **Matsui**. Thank you.

I think you gentlemen have come up with a very innovative program. However, I question many of the programs that deal with a tax credit rather than an actual appropriation and authorization. Obviously, with the deficit reduction atmosphere we are in right now, it makes much more sense to come to the Tax Code rather than to go through the appropriation and authorization process.

But assuming that we wanted to come up with a good program, and assuming that we were able to overcome some of the political difficulties with direct spending, you still favor a tax credit approach rather than a direct appropriations, knowing that with an appropriation we can control the program a little more and make sure that there are fewer abuses? At the same time would you favor that approach if you find, and you might if the Tax Code is done in a proper way, a more progressive system of funding rather than through the tax credit?

Mr. **Durbin**. Congressman, I would still favor the Tax Code. I think what we are attempting to do here is to create a new mindset and a new attitude that says I have got to control my own destiny; I have got to be concerned about my next job.

I think there is still going to be a need for direct appropriations in many training programs, but this program creates a mechanism for an employer and employee to face facts and to do it in a process through their own tax forms that I think is important. I think that is why this bill has attracted such a wide spectrum of political support.

Many people on the conservative side see that element, and I appreciate it as well, as being important to create in this country, and I would still favor the Tax Code as a mechanism.

Mr. **Boehlert**. I would echo that.

Mr. **Frenzel**. Would the gentleman yield? I do think, in fairness to the gentlemen, they intended this program to be supplemental. I also assume there would be some way to ensure that the program was certified in some way before disbursements could be made from the fund.

Mr. **Durbin**. And it also, I might add, would be such a boost to the educational resources of our Nation. A person dislocated with this account in the bank can go shopping. They can go to the community college, a proprietary school, the university, the vocational center, and ask them what kind of a deal can you offer me here? How much is your tuition and what is your job placement rate when it is all over? Before I spend my $4,000, I want to make sure this works.

That is going to make them better in providing training programs that really do work and put people on the job. So I think it has these spinoff effects, as well.

Mr. **Boehlert**. In one of our hearings in Cleveland, OH, we went to a training center, where the person in charge of the program proudly reported to us that he had 100 percent placement. Every single person who took that training program was immediately upon completion of the program placed in a job, and yet he had vacancies in the program. The reason he had vacancies is because the tuition was in the neighborhood of $1,800, and people just didn't have the $1,800 to pay the tuition.

Mr. **Matsui**. Thank you.

Chairman **Ford**. Thank you very much. We really appreciate your testimony.

There is a recorded vote on the House floor. The next witness will be the Assistant Secretary of Labor for Employment and Training Administration with the U.S. Department of Labor, Mr. Roger Semerad. We are going to stand in recess for a period of 10 minutes, and Mr. Semerad will be the first witness when we return back from a 10-minute recess.

[Recess.]

Chairman **Ford**. The subcommittee will come to order.

Before we left, we called Mr. Roger Semerad, the Assistant Secretary of Labor for Employment and Training Administration with the U.S. Department of Labor.

We are delighted to have you with us today, delighted to have your testimony before the committee. And if you don't mind, would you introduce the panel for the reporter, so in case they do respond to anything from the committee, that we will have them properly identified on the record?

STATEMENT OF ROGER D. SEMERAD, ASSISTANT SECRETARY OF LABOR FOR EMPLOYMENT AND TRAINING, U.S. DEPARTMENT OF LABOR, ACCOMPANIED BY ROBERT JONES, DEPUTY ASSISTANT SECRETARY; SHIRLEY PETERSON, ADMINISTRATOR, OFFICE OF EMPLOYMENT SECURITY; AND CAROLYN GOLDING, DIRECTOR, UNEMPLOYMENT INSURANCE SERVICE

Mr. **Semerad**. Mr. Chairman, thank you very much. It's my pleasure to appear here today before you and the members of the committee to testify on alternative uses of UI. We will be submitting our statement for the record in the interest of time and the number of witnesses you have, and I would like to summarize.

Chairman **Ford**. And the full text will be made a part of the record as well.

Mr. **Semerad.** I have my Deputy, Bob Jones, accompanying me; Shirley Peterson, who is the Administrator of our Department of Labor Office of Employment Security; and Carolyn Golding, the Director of our Unemployment Insurance Service sitting with me this afternoon.

We appreciate, Mr. Chairman, the initiative this subcommittee is taking, looking into the current systems to determine how they fit into a comprehensive effort to improve productivity and reduce the costs that will make American employers more competitive as we move toward the 21st century.

As you well know, worker dislocation is not a new problem. At one time, it was considered a sign of a healthy economy as we had these cyclical changes, as new companies came, new employers came onstream, and, indeed, that was the original purpose of the unemployment insurance system; to smooth off those bumps and stabilize the availability of the workforce in this country.

We, however, have found that the extent of worker dislocation has been accelerating at a rather troublesome pace as the country strives to maintain its competitive position in world markets.

Certainly an important goal of public policy has to be to facilitate the adaptation of the American worker, of the work force here, to these changes, and at the same time to minimize the costs in terms of dollars and, I think, minimize the trauma that we are now witnessing in various sectors of our economy and in regions of our country.

The Department of Labor administers a wide array of programs to help displaced workers: The unemployment insurance system, the employment service, and dislocated worker programs under title III of the Job Training Partnership Act. The Department of Labor is also open to and is exploring and testing new ways to put people back to work faster and in a cost-effective way, and I think how quickly we are able to work out these solutions will be a major element in determining competitiveness of this country in the future. And, indeed, it's a key factor, how fast we are able to work out this adjustment; how we manage the accelerated pace of change.

However, I would be remiss if I didn't voice caution about any proposals that tap the unemployment insurance trust funds for alternative uses. We think that alternatives have to be viewed in the context of the experience the system has encountered during the last 10 or 15 years. We, of course, all of us, are charged with maintaining the integrity of that system, both for the employer contributors and the worker recipients of these programs, but we would also, I think, be remiss if we failed to examine other possibilities, and test them if we see that there are good things to try.

To that end, the Department has already launched a demonstration project in New Jersey to offer reemployment assistance in a variety of combinations with the goal to get people reemployed, get them back on a payroll more quickly, to intervene, if you will, in their spell of unemployment within 5 weeks. We're going to be testing job search assistance, training assistance, relocation, and the possibility of a wage subsidy incentive. We intend, at least if everything stays on track, to begin to enroll workers for this demonstration project next month.

Five other States have undertaken on their own initiative experiments to provide additional services to dislocated workers. They are California, Massachusetts, Delaware, Iowa, and Pennsylvania, and each one of those experiments is a bit different. They should teach us something as we examine the results. We will, of course, be evaluating the impact of these particular experiments rather carefully to see whether or not they portend of things that we might change structurally in the system.

We are not at all convinced that Federal legislative changes are required. Under the unemployment insurance research authority, we think many of these things can be initiated now and that States are, as I pointed out, beginning to try some things on their own, things that we believe have promise.

In view of the New Jersey project and other State projects, we believe that some of the proposals before the committee might be considered premature until we have a little more experience and have an opportunity to evaluate some of these changes that are happening already.

We, Mr. Chairman, appreciate very much the committee's examination of this important issue, and we look forward to working with you as we evaluate the data on the States' experience and what we have in our experiments. I think we have to do this because it is my personal opinion that we in this country have to challenge some of the assumptions and test some of the systems, if indeed we are going to have the same kind of success rate in a technological age, which is coming, as we did have in an industrial age.

So we are very interested in all aspects of this. We appreciate the opportunity to sit before you and are prepared to answer any questions you might have.

Thank you.

Chairman Ford. Thank you very much, Mr. Secretary.

[The prepared statement follows:]

STATEMENT OF
ROGER D. SEMERAD
ASSISTANT SECRETARY OF LABOR
BEFORE THE
SUBCOMMITTEE ON PUBLIC ASSISTANCE
AND UNEMPLOYMENT COMPENSATION
HOUSE COMMITTEE ON WAYS AND MEANS

March 18, 1986

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to appear before you today at this hearing on alternative uses of unemployment compensation trust funds to assist dislocated workers.

I would like to begin by saying a few words about the problem of worker dislocation. This is not a new problem--we have always had a certain amount of plant closings and layoffs. They can be the mark of a healthy economy adjusting to new demands and economic priorities.

In recent years, though, the extent of worker dislocation has accelerated and may continue to accelerate as this country strives to maintain its competitive edge in world markets, keeping pace with rapid advances in technology and structural changes in the world economy. If we compete effectively in world markets, our economy will continue to grow and produce new jobs. But in many cases these will not be the jobs of today. Thus it is imperative that our labor force learn to adapt to a changing job market with new skill requirements.

A goal of public policy should be to facilitate this adaptation of the labor force, and to minimize its costs, both in human and economic terms. The Department of Labor administers an array of programs that help workers who have been displaced from their jobs adjust to new economic and job market realities. First, the Unemployment Insurance System provides involuntarily unemployed workers with temporary wage loss replacement. I will return to this subject in a moment. Second, the Employment Service System provides job search referral and placement assistance to all unemployed workers without charge. In addition, we administer two programs specifically targeted to displaced workers: the Dislocated Worker Program authorized by Title III of the Job Training Partnership Act, and training, job search, and relocation assistance that is available under the Trade Adjustment Assistance Program to workers whose employment is determined to have been adversely affected by imports. The JPTA Dislocated Worker program is State operated and addresses the reemployment needs of all types of dislocated workers, regardless of the cause of dislocation. These workers are provided training and retraining, job search assistance, relocation assistance, and other supportive services. Secretary Brock has chosen to set aside Title III discretionary funds to assist dislocated workers in several specific industries, such as steel and copper.

The question is whether these programs and services, as presently administered, are adequate to address the problem of worker dislocation, or whether there are other, more efficient and creative ways to use both public and private resources to assist displaced workers. In answering this question, it is necessary to keep in mind that for the forseeable future we will be living in a period of severe constraints on public resources. Our challenge is to make the best uses of the resources we have. I believe there are sufficient public and private resources to address the problem if only we can orchestrate them properly.

This brings me to the specific question before the Subcommittee today: are there ways of making the unemployment insurance system more responsive to the needs of dislocated workers? A basic building block of our labor market policy is Unemployment Insurance. There is no question in my mind that it needs to be integrated effectively into our overall policy for assisting dislocated workers. One avenue we are exploring to accomplish this is to achieve closer coordination of UI payments with referral to JTPA training and employment services. Another possible approach is to use the Unemployment Trust Fund for labor market adjustment assistance. However, this represents a basic departure from the current concept of unemployment insurance and needs to be approached cautiously.

The basic UI system and its financing provide benefit payments for a limited period of time to workers who have lost their jobs. The underlying premise is that unemployment is basically a transitory experience which may be overcome by some combination of temporary income support, job search and waiting for a job recall. However, changes in the labor market during the past several decades have caused some to question whether roles other than the traditional one of short-term income replacement might also be appropriate for the system. A number of proposals have been put forth to utilize UI in more creative ways to try to foster adjustment to new labor market situations.

In considering these proposals we should keep in mind the need to preserve the integrity of State trust funds. During previous recessions, when extreme demands were placed on the UI system, it ran into severe financing problems. Experience indicates that we should proceed cautiously.

I believe the best approach to finding more creative ways to speed a return to work of permanently dislocated workers before they exhaust their UI benefits, while adhering to the principles underlying Unemployment Insurance, lies in carefully designed demonstration projects. Therefore, as we design these projects, we need to ensure that there is no negative impact on employers' experiencing rating and/or on declining industries, but that they result in returning workers to the labor force at a more rapid rate. To this end, we have launched a major new UI reemployment demonstration project to test various alternatives for assisting permanently separated UI recipients to find employment. This demonstration has been launched in the State of New Jersey, but we hope to expand the demonstration to other locations.

The design phase of this demonstration project, conducted with the New Jersey Department of Labor, is in the final stages of Departmental review and the 12-month project will become operational next month, in April. The project will offer reemployment assistance early, in the fifth week of the spell of unemployment, to UI recipients who have suffered permanent job loss. The project will test four types of reemployment assistance that are not now provided to UI recipients on a regular basis: intensive job search assistance, retraining, relocation assistance, and a wage subsidy incentive for more rapid reemployment.

A rigorous evaluation will be conducted of each form of reemployment assistance.

We have also requested a one time increase of $10 million in the President's FY 1987 Budget to finance related demonstrations in other locations. We are also considering future demonstrations which could include a component using UI funds to subsidize self-employment. This demonstration could include a front-end cashout of the total amount of UI benefits for which a claimant is eligible or, as an alternative, permitting a claimant to draw weekly benefits and waiving the standard job search requirements during the period in which the new venture is being established.

In addition to these demonstration efforts, we also are monitoring related State initiatives. Five States have undertaken programs in this area which are currently funded by resources other than State UI monies. For example, since 1980 California has offered a Training Benefits Program by which workers with obsolete skills can receive income support while in approved training. In 1982 the program was made available to dislocated workers where there was a plant closure or substantial reduction in force.

In 1984 Massachusetts began a program of counseling, placement, and training for workers displaced in total or partial plant closings. A higher level of wage replacement, plus health insurance in some cases, is also provided for eligible workers. Delaware, Iowa and Pennsylvania also have established special State programs for dislocated workers.

Once we have evaluated the results of the New Jersey and similar demonstration projects, supplemented by information from State initiatives, we will have a more comprehensive body of information and data on which to base our assessment of alternative approaches for helping displaced workers to obtain reemployment.

At this time I would like to turn to the three bills you are considering today: H.R. 758, introducted by Congressman Stark; H.R. 1690, introduced by Congressman Wyden; and H.R. 1947, introduced by Congresswoman Kennelly. Each of these bills would expand the uses to which UI trust funds could be put to meet the training and related needs of unemployed individuals.

H.R. 758 would make short-term compensation a permanent permissive feature in Federal law; permit States to waive voluntary quit disqualifications in certain situations for workers who leave to enter training; permit a State to cash out a claimant's remaining UI entitlement if that individual accepts a lower-paying job; and permit States to provide additional UI benefits to individuals in approved training.

Currently, States are free to adopt short-term compensation programs, and ten States now have such programs in operation. States are also free to amend their voluntary quit provisions. Thus, Federal legislation is not necessary. The other provisions in the bill each have the potential for additional benefit costs to the States. Until these concepts have been tried on an experimental basis and carefully evaluated to determine whether the approaches are effective and their benefits outweigh their costs, we should not consider imposing these added costs on the States. Also, as I mentioned earlier, we need to consider the solvency problems many of the States have encountered in the last decade, as well as the equity issues inherent in the UI financing system, and should be cautious in considering changes that might exacerbate those problems.

H.R. 1690 would authorize a demonstration project in which a limited number of States would be permitted to provide UI to individuals for the purpose of funding self-employment. This is an element that we are considering as part of the new demonstrations we would finance with the resources requested for FY 1987, or perhaps as part of the New Jersey demonstration project. Legislation is not needed to undertake the demonstration.

H.R. 1947 would add a new requirement that the States designate a State agency to determine approved training for UI claimants and designate a State agency to determine the eligibility of individuals to participate in approved training programs. These elements would be required as a condition for all employers in the State to receive credit against the Federal tax. Under current Federal law, States are prohibited from denying benefits to an individual who is in training approved by the State employment security agency because of other requirements in State law relating to availability for work, active search for work, or refusal to accept work. Title III of the Job Training Partnership Act also requires that States consider training under Title III as approved training for UI purposes. In addition, all States have mechanisms in place for approving training for UI recipients.

Although we have no ongoing statistical reporting on this requirement, we do know that JTPA, Trade Adjustment Assistance, and vocational training are approved UI training in virtually every State. Other types of training, such as apprenticeship and academic training, are approvable in many States with the provision that the training be related to employment or part of a vocational training program. In view of the current requirement in Federal law and the fact that States are in the best position to determine the training needs of their claimants, the Administration opposes adding this new requirement to Federal law.

Mr. Chairman, this concludes my prepared statement. At this time I would be pleased to answer any questions that you or your colleagues may have.

Chairman **Ford**. Do I understand that you want us to await the results of your demonstration project before we would move to act on any of the bills that might be before this subcommittee that have been introduced in the Congress?

Mr. **Semerad**. I think in terms of the practical implications, this is a system that's been around, as you know, for a long time. Now that we've begun some of these experiments, and they have timelines—I mean, it's not something into the next decade, we'd have to wait to see whether or not these different kinds of uses, interventions, not only serve the purposes for which they're intended, but also don't threaten the underlying integrity of the trust funds.

Chairman **Ford**. You know, we've had several Members of the House with their own bills here before the Congress. Why not allow a few States to experiment?

We have heard one of our colleagues, Congressman Wyden, about his program—we've heard from some of the other Members—why not let them experiment at this time? Why not have a few States conduct some experimental demonstration programs.

Wouldn't that enhance, wouldn't that complement the demonstration projects that you have underway?

Ms. **Golding**. I think the question is, Do you need Federal legislation in order to have those kinds of State experiments? In fact, a number of States, including Illinois, are testing the very idea or something very similar to what Mr. Wyden is proposing, without any Federal legislation and without using UI trust funds. Those State experiments and our New Jersey demonstration, which is funded with UI research money, should give us answers to some of the questions that you and your colleagues have been asking: What do these things cost, and what's the real impact that they have on speeding up a worker's return to work?

I don't think legislation is needed to encourage the State experiments. I think they're already occurring without Federal legislation.

Chairman **Ford**. You know, Mr. Secretary, you mention in your printed text about the trade adjustment assistance. Let me ask you, the income assistance portion of the TAA has expired, but what is the administration's position on the extension of the trade adjustment assistance?

Mr. **Semerad**. Well, Mr. Chairman, clearly our wish and why we did not call for the continuation of TAA is that under title III of the Job Training Partnership Act, we felt that the integration of the retraining or the training aspect of adjustment was more carefully addressed. The TAA experience would suggest that it does not increase the speed with which people become reemployed or retrained, and the incentives aren't there. It really is an income maintenance program.

Our position, really, also accepts the idea; if you're out of work, you're out of work. The days when the plant reopens and you can hold out to the end of your benefits and then get called back don't seem to be happening. And whether or not your company closed down, your factory closed down, because of a trade matter, if your children are hungry and your mortgage is due, you need to get your life back in order.

So we thought that we had a pretty good system going with title III, and we wanted to expand that to include that group of people, rather than have both programs going on.

Chairman **Ford**. At the same time.

Now can we realistically, you know, help dislocated workers with only 6 months of wage replacement? I think most States have, what, 26 weeks, which is about a 6-month period. Can we really help——

Ms. **Golding**. I think one of the things that we're trying to test in New Jersey is not waiting until that 26 weeks is up to decide that you can or cannot help that person or that they no longer have access to that income maintenance.

One of the things that we're testing in New Jersey is trying to identify those folks at the fifth week of drawing claims, so that we can get an early intervention while they still have some weeks of entitlement left, and then see whether those extra interventions, as measured against a control group, really do accelerate their return to work.

Right now, about 31 percent of the people who are paid initially in UI exhaust their benefits, and probably half of those people are what we would call dislocated workers, whose industry and occupation is one that they will not be able to return to at the end of that period of time.

In the case of California, Delaware, Massachusetts, those three States actually are paying out of a separate tax source for additional weeks of benefits for those people, for stipends as they engage in retraining and related efforts to help them move to a different industry or occupation.

Chairman **Ford**. There are some concerns that have been raised on this committee. I guess in the month of February we see five-tenths of 1 percent of an unemployment jump in the unemployment rate. I guess we had already scheduled this session today prior to those figures being released by the Labor Department.

But we are concerned with unemployment now jumping five-tenths of 1 percent over a 1-month spread. Would you like to respond to why those trends or why that big jump in the unemployment rate?

Mr. **Semerad**. Well, Mr. Chairman, the hardest to explain and the most structural situation would be Illinois, I think. Illinois, Texas, and California accounted for a majority of that jump. In Texas, the fall in oil prices and the floods in California clearly make the explanation a little more clear.

We, as you know, have asked for a bit more discretion with the title III money, so that we can target resources better. We want to be able to respond to applications from hard hit States as quickly as possible. We feel that that targeting could offset the negative aspects of the budget restrictions.

And I think, going back, if I may, to the problem of trade adjustment and worker dislocation, it seems to me that another reason why we want to bring trade dislocated workers into title III is really the emphasis on training. Probably the key to this country's success is going to be how fast we retrain people. It's going to change the work culture—according to the experts—in this country, some experts saying we're going to have to change, be retrained 5 to 10 times—I've heard a variety of estimates—over the course of their work life.

Now we have to find ways to do that quickly, as I pointed out earlier, and ways where it's not the end of the world if their company goes under because people understand that we, as a government, as a government policy, provide smooth ways of getting people retrained, and I think, from TAA to JTPA, the emphasis in JTPA is on training and placement, as opposed to just income maintenance, and I think that that's where we're at. If we could combine that with better targeting so we could move more quickly, the Secretary could respond to States that were being unduly or unnaturally affected, and we could do a better job.

Chairman FORD. Thank you very much, Mr. Secretary, for your appearance today.

Mr. SEMERAD. Thank you, Mr. Chairman. We look forward to working with you.

Chairman FORD. The Chair would like to call the next panel.

There is another recorded vote on the floor.

Jim Ellenberger, assistant director of the Department of Occupational Safety, Health and Social Security of the American Federation of Labor and Congress of Industrial Organizations.

Also we have Warren Blue, chairman of the Subcommittee on Unemployment Compensation with the National Association of Manufacturers, along with William Brown, the president of the Council of State Chambers of Commerce, and Steven Rosenbaum, manager of unemployment insurance and workmen's compensation with the Illinois State Chamber of Commerce. So we have Mr. Blue and Mr. Brown and Mr. Rosenbaum and Mr. Ellenberger.

I am going to have to recess for 10 minutes and vote. I don't know what's going on over there, other than a conference and a disagreement in the conference, and some parliamentary procedures on the floor. I would go on through, but this is an issue that was reported from this subcommittee, so we will stand in recess for 10 minutes.

[Recess.]

Chairman FORD. The subcommittee will be in order.

Mr. Ellenberger, the committee will recognize you at this time.

STATEMENT OF JAMES N. ELLENBERGER, ASSISTANT DIRECTOR, DEPARTMENT OF OCCUPATIONAL SAFETY, HEALTH AND SOCIAL SECURITY, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. ELLENBERGER. Thank you, Mr. Chairman. I am delighted to be here today. I just wanted to make a footnote before I begin that the United Steelworkers of America regrets that they are unable to join me at this hearing today, but that they are very interested in this issue, in these three bills, and the broader question of alternative uses of UI trust funds. They will be responding in writing to the subcommittee, as will the United Auto Workers of America and possibly some other affiliates of the AFL-CIO.

I was asked if I would mind sharing this table with some of the business representatives here, and I explained that the AFL-CIO is quite accustomed to doing missionary work. [Laughter.]

And, in fact, frequently when we share tables, the end result is economic and social justice for our members, especially when we are on opposite sides of the table. Today we are on the same side.

We are pleased to take this opportunity to address the committee on the issue of alternative uses of unemployment compensation trust funds to assist dislocated workers and specifically to comment on three bills that are before the committee, H.R. 1947, introduced by Mrs. Kennelly and others; H.R. 758, introduced by Mr. Stark; and H.R. 1690, introduced by Messrs. Wyden, Gephardt, and Schumer.

As was noted by a number of the witnesses earlier this afternoon, the unemployment rate last month jumped by six-tenths of a percentage point, from 6.7 to 7.3 percent, representing 8.5 million unemployed.

Add to that 1.2 million discouraged workers, and 5.4 million part-time workers wanting full-time jobs for a total of 15.1 million affected by unemployment, and a lack of full-time job opportunities.

The February increase in the jobless rate meant that 700,000 more Americans were without work. How is our unemployment insurance system dealing with that crisis? The vast majority of the jobless, nearly 7 out of 10, are receiving nothing from the Nation's unemployment compensation system.

Today only 1 percent of the 1.2 million unemployed for 27 weeks or longer qualify for extended benefits. Those fortunate enough to actually receive benefits are getting, on average, just 35 percent of the average weekly wage in covered employment.

The method of funding the program has become over the past 50 years increasingly regressive. The ratio of wages subject to UI taxes was 98 percent in 1939. Today it is 36 percent. The Federal taxable wage base has been changed only four times. Originally all covered wages were subject to the Federal Unemployment Tax Act. In 1940, the FUTA tax was limited to the first $3,000 of wages and 46 years later, in 1986, it is still only $7,000. The result has been a chronic serious underfunding of the system.

The most recent report from the Department of Labor shows that the UI trust funds have a positive balance of just over $16 billion. This represents an improvement over the previous year of over $4 billion. The amount of debt owed by the States to the Federal Government for loans to the trust funds has been reduced in the same period by $3.4 billion. That $16 billion in the UI trust fund accounts is beginning to attract the attention of policymakers and others, who are reluctant to provide new revenue to pay for new proposals, in this time of budget constraints and tax giveaways.

The trust funds are in no better shape today to meet the requirements of the next recession, and there will be recessions in the future, than they were prior to our last two recessions which necessitated such heavy borrowing by the States to meet their unemployment compensation obligations.

This committee is examining the important question as to whether the unemployment compensation system can be made more responsive to special needs of dislocated workers.

The AFL-CIO believes that it is incumbent on our society and on our Government to do everything in its power to fulfill the moral, social, political, and economic imperative of full employment. But there must be a fully effective unemployment insurance system to meet the needs of the jobless, and we congratulate you, Mr. Chairman, and this subcommittee for addressing this issue.

For 50 years the labor movement has worked to improve the system that was established in August 1935. The goals that were set then and still guide the program are to provide temporary and partial wage replacement to jobless workers who were recently employed, and to act as a stabilizing influence on the economy during recessions. But today nearly 6 million unemployed workers receive no unemployment compensation benefits, and countless communities across the country, wracked by high unemployment, are deprived of the steadying effect that the law intended.

The AFL-CIO executive council examined the crisis in the Nation's unemployment insurance system last month and adopted a factsheet on unemployment compensation which called for a number of steps to restore protection for all jobless Americans.

I have attached a copy of that to my testimony, Mr. Chairman. I would ask that that be included in the record.

Chairman FORD. It will be made a part of the record.

Mr. ELLENBERGER. At a minimum these actions would include adjusting the taxable wage base to 65 percent of the average annual wage; removing harsh eligiblity and disqualification provisions; providing assistance to the long-term unemployed; establishing Federal minimum standards; and eliminating taxation of UI benefits.

The issue before us involves the question as to how far we want to go in adjusting the goals of the UI system toward the end of using it to encourage or assist in reemploying the jobless.

The system has, in limited fashion, demonstrated flexibility in providing that compensation shall not be denied to individuals for any week that they are attending a training course approved by a State agency.

And judging from the comments of some of the members earlier this afternoon, it would seem that substantial improvement could be made in that case.

The AFL-CIO supports that practice which is currently or supposedly mandatory in all States. H.R. 1947 would not change the right of jobless workers who are otherwise eligible to receive unemployment benefits while they are participating in approved training programs.

H.R. 758, while attempting to promote State adoption of short-time compensation programs, among other measures, needlessly complicates the concept by introducing elements that the AFL-CIO cannot support, such as inducements to accept jobs at lower rates of pay.

Perhaps the most troubling proposal before this committee is H.R. 1690, which would provide for a demonstration program allowing States to provide unemployment compensation to individuals to aid in funding self-employment. At a time when Federal funds for the purpose of promoting small business ventures are being cut back, the unemployment insurance system is being suggested as a vehicle for augmenting the number of individual entrepreneurs.

The AFL-CIO does not believe that the problem of dislocated workers can be addressed in any meaningful measure by turning the unemployed into small entrepreneurs.

We are particularly troubled by the suggestion that payment of lump sum unemployment compensation benefits in the form of a self-employment allowance will be sufficient to improve the chances of success for any individual choosing to opt for self-employment.

More importantly, we believe that the unemployment compensation program must be reserved for that purpose for which it is intended, temporary income support, enabling the jobless to continue to provide themselves and their dependents with the essentials of life: food, clothing, and shelter.

We are, however, attracted to the idea, as in the case with individuals who are receiving UI benefits while in approved training programs, that work search requirements ought not be used to disqualify an individual who is attempting to make a living as a self-employed person.

Furthermore, if several unemployed workers are attempting to pool their efforts to take over or to restart an enterprise, they too should be eligible to continue to draw their unemployment benefit entitlements.

The AFL-CIO has long argued that existing work search requirements are one of the most subjective elements of the UI system. Such requirements are often used to harass jobless workers and to force them off the UI rolls for a technical violation. We have and continue to support the recommendation of the National Commission on Unemployment Compensation in its July 1980 Report to the President and to the Congress that stated that State laws should eliminate specific actively seeking work availability requirements.

The AFL-CIO has cooperated with the Department of Labor and with various State projects that have attempted to grapple with the problems of long-term unemployment and dislocated workers. A great deal more can and should be done.

We will continue to cooperate insofar as the interests and rights of all workers under the Nation's UI system are protected. We are and will remain deeply concerned with any proposals that suggest uses for the unemployment insurance trust funds beyond what exists in current law.

We have long fought for a system of unemployment insurance that is responsive and protective to both the displaced and the exploited. To achieve such a system requires a real solution to the deliberate underfunding of the UI system, a permanent program of assistance to the long-term jobless, and the establishment of an effective and comprehensive employment service.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF JAMES N. ELLENBERGER, ASSISTANT DIRECTOR DEPARTMENT OF OCCUPATIONAL SAFETY, HEALTH AND SOCIAL SECURITY AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS BEFORE THE SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION OF THE HOUSE COMMITTEE ON WAYS AND MEANS

March 18, 1986

The AFL-CIO appreciates this opportunity to address this committee on the issue of alternative uses of unemployment compensation trust funds to assist dislocated workers and specifically on three bills that are before the committee. H.R. 1947 introduced by Mrs. Kennelly and others, H.R. 758 introduced by Mr. Stark, and H.R. 1690 introduced by Messrs. Wyden, Gephardt & Schumer.

It is particularly important for the Congress to devote its time and attention to the problem of unemployment and long-term joblessness on the Fortieth anniversary of The Employment Act of 1946.

That Act, signed by Harry Truman, committed the government to creating and maintaining "conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking work, and to promote maximum employment, production and purchasing power."

AFL-CIO President Lane Kirkland noted recently before the National Committee for Full Employment that it would be hard to improve on those words, but it would be easy to improve on the government's performance.

The unemployment rate last month jumped by six-tenths of a percentage point from 6.7 to 7.3 percent representing 8.5 million unemployed. Add to that 1.2 million discouraged workers and 5.4 million part-time workers wanting full-time jobs for a total of 15.1 million affected by unemployment and a lack of full-time job opportunities. The February increase in the jobless rate meant that 700,000 more Americans were without work.

How is our unempoyment insurance system dealing with this crisis? The vast majority of the jobless, nearly 7 out of every 10, are receiving nothing from the nation's unemployment compensation system. Today only 1 percent of the 1.2

million unemployed for 27 weeks or longer qualify for extended benefits. Those fortunate enough to actually receive benefits are getting, on average, just 35 percent of the average weekly wage in covered employment.

The method of funding the program has become, over the past 50 years, increasingly regressive. The ratio of wages subject to UI taxes was 98 percent in 1939; today it is 36 percent. The federal taxable wage base has been changed only 4 times. Originally all covered wages were subject to the Federal Unemployment Tax Act. In 1940, the FUTA tax was limited to the first $3,000 of wages. Forty-six years later, in 1986, it is only $7,000. The result has been chronic serious underfunding of the system.

The most recent report from the Department of Labor shows that the UI trust funds have a positive balance of just over $16 billion. This represents an improvement over the previous year of over $4 billion. The amount of debt owed by the states to the federal government for loans to their trust funds has been reduced in the same period by $3.4 billion.

That $16 billion in the UI trust fund accounts is beginning to attract the attention of policy makers and others who are reluctant to provide "new" revenue for pay for "new" proposals in this time of budget constraints and tax giveaways.

The trust funds are in no better shape today to meet the requirements of the next recession - and there will be recessions in the future - than they were prior to our last two recessions which necessitated such heavy borrowing by the States to meet their unemployment compensation obligations.

In a report prepared for the National Governors' Association last year, Dr. Wayne Vroman of the Urban Institute emphasized that "even under an optimistic projection made at the U.S. Department of Labor, total net reserves accumulated through the end of fiscal year 1989 ($32.1 billion) will attain only half of the level recommended as minimally adequate under a commonly used actuarial guideline." This assumes no additional recessions and continuing restrictiveness on questions of eligibility and benefit levels.

This committee is examining the important question as to whether the unemployment compensation system can be made more responsive to special needs of dislocated workers.

The AFL-CIO believes that it is incumbent on our society and on our government to do everything in its power to fulfill the moral, social, political and economic imperative of full employment. But there must be a fully effective unemployment insurance system to meet the needs of the jobless. For 50 years the labor movement has worked to improve the system that was established in August 1935. The goals that were set then and that still guide the program are to provide temporary and partial wage replacement to jobless workers who were recently employed and to act as a stabilizing influence on the economy during recessions. But today nearly 6 million unemployed workers receive no unemployment compensation benefits and countless communities across the country, wracked by high unemployment, are deprived of the steadying effect the law intended.

The AFL-CIO Executive Council examined the crisis in the nation's unemployment insurance system last month and adopted the attached Fact Sheet on Unemployment Compensation which calls for a number of steps to restore protection for all jobless Americans. At a minimum, these actions would include adjusting the taxable wage base to 65 percent of the average annual wage, removing harsh eligibility and disqualifications provisions, providing assistance to the long-term unemployed, establishing federal minimum standards and eliminating taxation of UI benefits.

The issue before us involves the question as to how far we want to go in adjusting the goals of the UI system toward the end of using it to encourage or assist in reemploying the jobless.

The system has, in limited fashion, demonstrated flexibility in providing that compensation shall not be denied to eligible individuals for any week that they are attending a training course approved by the State Agency. The AFL-CIO strongly supports this practice which is currently mandatory in all states. H.R. 1947 would not change the right of jobless workers who are otherwise eligible to receive unemployment benefits while they are participating in an approved training program.

H.R. 758, while attempting to promote state adoption of short-time compensation programs among other measures, needlessly complicates the concept by introducing elements that the AFL-CIO cannot support such as inducements to accept jobs at lower rates of pay.

Perhaps the most troubling proposal before this committee is H.R. 1690 which would provide for a demonstration program allowing states to provide unemployment compensation to individuals to aid in funding self-employment. At a time when federal funds for the purpose of promoting small business ventures are being cut back, the unemployment insurance system is being suggested as a vehicle for augmenting the number of individual entreprenurs.

The AFL-CIO does not believe that the problem of dislocated workers can be addressed in any meaningful measure by turning the unemployed into small entrepreneurs. We are particularly troubled by the suggestion that payment of lump-sum unemployment compensation benefits payments, in the form of a "self-employment allowance," will be sufficient to improve the chances of success for any individual choosing to opt for self-employment.

More importantly, we believe that unemployment compensation must be reserved for the purpose for which it is intended - temporary income support - enabling the jobless to continue to provide themselves and their dependents with the essentials of life: food, clothing and shelter.

We are however, attracted to the idea, as in the case with individuals who are receiving UI benefits while in approved training programs, that work search requirements ought not be used to disqualify an individual who is attempting to make a living as a self-employed person. Furthermore, if several unemployed workers are attempting to pool their efforts to take over or re-start an enterprise, they too should be eligible to continue to draw on their unemployment benefit entitlements.

The AFL-CIO has long argued that existing work search requirements are one of the most subjective elements of the UI system. Such requirements are often used to harass jobless workers and to force them off the UI rolls for a technical violation. We have and continue to support the recommendation of the National Commission on Unemployment Compensation in its July 1980 report to the President and the Congress:

> "that state laws eliminate specific 'actively seeking work' availability requirements. The Commission recommends instead that each claimant be required to demonstrate his or her availability for work by doing those things a reasonably prudent person in his or her circumstances would do to find work. In other words, States should require job search efforts by the claimant that are appropriate in light of such relevant factors as the hiring practices of the claimant's industry, the local labor market conditions of the claimant's occupation, and the claimant's particular circumstances.
>
> "The test of availability should turn on the appropriateness of the claimant's job search efforts. Claimants do not meet the test if they fail such efforts to find suitable work as are reasonable in their circumstances or if they so restrict the work, working conditions, or locality of work as to in effect establish that no substantial market exists for their services.
>
> "If, for any reason, States elect to include specific specific registration or search for work provisions in their laws, such provisions should be clearly restricted to only those positions, employers, individuals, localities, or industries which would reasonably be expected to be administered properly

and effectively by the States with a minimum of paperwork and interference with customary employer and employee responsibilities in a market economy."

The AFL- CIO has cooperated with the Department of Labor and with various State projects that have attempted to grapple with the problems of long-term unemployment and dislocated workers. We will continue to do so insofar as the interests and rights of all workers under the nation's UI system are protected. We are and will remain deeply concerned with any proposals that suggest uses for the unemployment insurance trust funds beyond what exists in current law.

The AFL-CIO has long fought for a system of unemployment insurance that is responsive and protective of both the displaced and the exploited. To achieve such a system requires a real solution to the deliberate underfunding of the UI system, a permanent program of assistance to the long-term jobless and the establishment of an effective and comprehensive employment service.

Thank You

Fact Sheet

on

Unemployment Compensation

Overview

The nation's unemployment insurance system, established 50 years ago last August, is in a state of crisis. The vast majority of the jobless are not being provided benefits; the long-term unemployed are totally unprotected; employers have successfully convinced legislators to keep taxes low, benefits low and eligibility requirements high; and the Reagan Administration has taken actions and proposed further steps that will make the system more restrictive and less responsive to those in our society who are most in need of protection from the ravages of unemployment.

Priority Issues

1. Decline in percentage of unemployed receiving benefits. At the present time, nearly 7 out of every 10 of the jobless are receiving nothing from the nation's unemployment compensation system. In October 1985, only 26.6 percent of the unemployed received benefits, an all-time low. In 1975, an average of 76 percent of the unemployed received benefits.

2. Long-term jobless have lost virtually all protection. Today only 1 percent of those unemployed for 27 weeks or longer qualify for extended benefits (UC benefits beyond the normal 26 weeks of benefits provided by the states). Due to changes brought about by the Reagan Administration in the trigger mechanism, only the state of Alaska and Puerto Rico currently qualify for the federal/state extended benefit program (up to 13 weeks of benefits beyond the regular benefit program operated by the state).

3. Benefit levels are low. In 1985, the average weekly benefit amount in the United States was $122. This represents 35 percent of the average weekly wage in covered employment ($347).

4. Employer taxes have declined. The ratio of wages subject to UI taxes was 98 percent in 1939 while today it is 36 percent. This is one of the most regressive of all taxes. The federal taxable wage base has been changed only 4 times. Originally all covered wages were subject to the Federal Unemployment Tax Act (FUTA). In 1940, the FUTA tax was limited to the first $3,000. Forty-six years later, in 1986, it is only $7,000. The result has been chronic serious underfinancing of the system.

5. Further cuts planned. New efforts being undertaken by the Reagan Administration, under the guise of quality control, shifting administrative costs to the states, and more onerous experience rating, can only encourage the states to adopt more restrictions on eligibility and harsher disqualifications, and impose more reductions and lower limits on benefit levels.

Crisis in the Unemployment Insurance System

A. Inadequacy of Coverage

On average in 1984, just under 3 million of the over 8½ million unemployed received UI benefits under the state regular benefit program and the federal/state programs for the long-term unemployed. Only 34.1 percent of the jobless got benefits -- 65.9 percent fell through the cracks. They either failed to meet qualification requirements or had previously exhausted benefits.

The record for 1985 is far worse. During five months in 1985 (June through October), less than 30 percent of the unemployed received benefits under all UI programs. Overall in 1985, just 33.6 percent of the unemployed got compensation from the system. This meant that during each month of the year more than 5½ million of the jobless received nothing.

For the long-term jobless, there is no protection afforded by the present system. There have been well in excess of 1 million long-term jobless (27 weeks or more) during every month of 1985. This does not include the discouraged or those working part-time but needing full-time employment. Ninety-nine percent of those out of work six months or longer get nothing from the UI system.

In a 1985 report for the National Governor's Association, Wayne Vroman of the Urban Institute concluded that "although there have been widespread cutbacks in UI benefits, the largest reductions that have taken place have been in benefits paid to the long-term unemployed. Sharp cutbacks in long-term UI benefits have occurred despite the fact that long-term unemployment was more prevalent in 1982, 1983 and 1984 than in any other years since World War II."

As recently as 1975, over 76 percent of the unemployed were receiving benefits from either the regular program or one of the programs established to assist the long-term jobless. Although there were fewer long-term unemployed in the mid 1970s, extended benefits were being paid to an average of 535,000 each week. Today, only 12,000 of the long-term jobless qualify for such assistance (limited to those in Alaska and Puerto Rico).

According to Gary Burtless of the Brookings Institution, "some critics of unemployment insurance might fault the comparison with 1975-76 because benefits in that period were unusually generous, lasting up to 65 weeks irrespective of a worker's financial need. However, even in comparison to earlier recessions when unemployment insurance was less generous, benefits provided in 1981-82 covered an unusually small fraction of the unemployed. Except during the comparatively mild recession in 1970-71, at least 56 percent of the unemployed received jobless benefits in every postwar recession through 1977."

Burtless also points out the declining value of the nation's UI system as a countercyclical stimulus. He notes that "in fiscal 1976, when only 7.6 million were unemployed, the nation spent almost $31 billion (1982 dollars) on all unemployment insurance programs. (In 1982), when unemployment averaged 10 million, less than $24 billion was spent on these programs. Thus the amount of countercyclical stimulus dropped by nearly one-fourth though the number of unemployed was higher by one-third. The real compensation per unemployed worker fell by over 40 percent."

Problems: Restrictions and Underfunding

B. Restrictions

1. Beginning in 1979 (The Revenue Act of 1978), UI benefits became taxable as ordinary income at certain levels ($20,000 for singles and $25,000 for couples filing jointly). P.L. 97-248 lowered those levels to $12,000 for singles and $18,000 for married individuals in 1982. The current tax bill being considered in Congress would tax all UI benefits. Subjecting UI benefits to taxation established a precedent for taxing government transfer payments previously always treated as non-taxable income.

2. Due to proposals of the Reagan Administration that were adopted in the Omnibus Budget Reconciliation Act of 1981, a number of far-reaching changes were implemented that have sharply modified the scope of UI and have severely restricted eligibility of the long-term unemployed.

a.) Access to extended benefits was curtailed by eliminating the national trigger, excluding EB recipients from trigger computations and raising the levels of the automatic and optional state triggers. These restrictions are so tight that today only a handful of jobless workers in Puerto Rico and Alaska are receiving extended benefits. Additionally, the failure of the Administration and Congress last March to extend the Federal Supplemental Compensation program (FSC) resulted in the loss of benefits to over 340,000 long-term jobless workers.

b.) The cost of indebtedness to states forced to borrow from the federal government was raised by imposing interest charges on loans made after March 31, 1982. Hence during recessions and periods of high unemployment, states are faced with the choice of incurring additional debt through interest charges or avoiding that debt by reducing benefit levels and periods of durations and making eligibility requirements more strict. States were further encouraged to make their systems more restrictive by the Social Security Amendments of 1983. If a debtor state improved its solvency by 25 percent through tax increases or benefit reductions, it was allowed to defer, at no cost, 80 percent of the interest payments on federal loans. Additional incentives were available to those states making solvency adjustments greater than 25 percent by reducing interest rates and federal unemployment tax (FUT) penalties. By March 1984, all eight of the largest debtor states had enacted solvency legislation (PA, IL, OH, WI, MI, TX, LA and NJ).

Wayne Vroman has estimated that program solvency will be improved in those states by $12 billion in the 1983-86 period. Tax increases would account for $8.3 billion or 69 percent of the total and benefit reductions would account for $3.7 billion or 31 percent. But due to savings on interest deferral, lower interest rates and reduced FUT penalties, the net increase in employer UI costs would be $5.4 billion making the employer/employee share of the net change in these eight states 59 percent and 41 percent respectively. The types of benefit reductions include: a freeze on benefit maximums, reduction in the replacement rate (i.e., the ratio of benefits to previous wages), reducing duration periods, and increasing base period earning requirements. Although Vroman examined only these eight states, similar actions were taken by other debtor states and states attempting to avoid debtor status.

c.) Workers' access to benefits under the Trade Adjustment Assistance (TAA) program was sharply reduced.

d.) The availability of UI benefits for those leaving military service was curtailed.

3. In the past year, the Reagan Administration has acted or has proposed actions which can only result in a more restrictive unemployment insurance program.

a.) The Department of Labor had planned to implement last July a so-called "Quality Control System" which would have required each state to audit up to 1,600 UI benefit recipients each year. Secretary Brock, at the request of the AFL-CIO, delayed the scheduled implementation of the program. As originally planned, the QC program would have fulfilled demands by the Chamber of Commerce and other business groups to examine what are claimed to be instances of overpayments due in most cases to the failure of claimants to meet work-search requirements. Most state work-search requirements, particularly during periods of high joblessness, are a form of harassment to the unemployed and constitute a nuisance to employers. The AFL-CIO insisted that any "quality control" program should include audits of denials, which would reveal significant cases of underpayments, as well as audits of tax collections which would reveal non-payment and late payment of taxes by employers. Such tax delinquencies, according to a Department of Labor analysis of 1982 figures, amount to nearly $1 billion a year. The Secretary announced in December that the Department would proceed with the QC program in March 1986. It will focus first on overpayments and only at some unspecified date will it eventually "be expanded to include the investigation of claims that had been denied and employer tax collection activities."

b.) For the past several years, the Office of Management and Budget has been promoting a scheme called "devolution." Under this proposal, the responsibility for funding state administrative expenses in the UI system would be transferred from the federal government to the states. Since the inception of the nation's unemployment insurance program over 50 years ago, administrative costs at both the federal level and the state level have been funded by the federal government from funds collected through the Federal Unemployment Tax (FUT). Under devolution, states would be forced either to raise taxes or reduce benefits in order to provide sufficient resources for administrative expenses. Devolution would significantly weaken the federal role in the nation's UI system, making it difficult if not impossible to move toward fair and equitable federal standards. In December, the Department of Labor initiated a period of study and review of "needed changes in the State Employment Security Agency administrative financing system." If devolution emerges from this process it could have extremely negative and long-lasting effects on the unemployed and on the employees in state agencies, many of whom are union members.

c.) The AFL-CIO has always argued against experience rating as an element in calculating unemployment insurance taxes. Under experience rating, employers with favorable layoff experience in relation to payrolls qualify for lower tax rates than those with less favorable experience. Employers are encouraged by the incentive of experience rating to contest claims by their former employees for unemployment compensation no matter how legitimate those claims may be. The United States is the only country in the world with this feature in its UI program. Short of abolishing experience rating, its effects can only be mitigated by strengthening claimant rights. The Department of Labor's Office of Inspector General, in a report issued last August, has concluded that the unemployment insurance program is becoming more "socialized" due to a decline in the effectiveness of experience rating. The recommendation of the OIG is that policy makers should reverse the alleged decline of experience rating to provide increased incentives for employers to monitor UI benefit claims. In other words, tax rates can be lowered if employers file more appeals and reduce the number of unemployed who are judged eligible for UI benefits. At a time when the nation is failing to provide protection to vast numbers of the unemployed, it is unconscionable for the Department of Labor to propose tighter experience rating measures that can only result in even larger numbers of the jobless being denied UI compensation.

C. Underfunding

The taxable wage base established by the federal government is $7,000. The ratio of wages subject to UI taxes was 98 percent in 1939. Today it is a mere 36 percent. Underfunding has become the rationale for curtailing benefits.

Due to the demands placed on state trust funds by the recessions of 1975-76 and 1980-84 and the failure of policy makers to address the underfunded UI system, inadequate reserves are likely to persist for the foreseeable future. According to Dr. Vroman, "even under an optimistic projection made at the U.S. Department of Labor, total net reserves accumulated through the end of fiscal year 1989 ($32.1 billion) will attain only half of the level recommended as minimally adequate under a commonly used actuarial guideline." (This assumes no additional recessions and continuing restrictiveness on questions of eligibility and benefit levels.)

The formula is simple: keep the system underfunded in relation to the needs; then use the underfunding as the rationale for cutting benefits. The goal: keep inadequate outlays in balance with inadequate revenues.

AFL-CIO Position

As reiterated at the Sixteenth Convention of the AFL-CIO in October 1985, the Federation has called on Congress to restore the nation's unemployment insurance system to a bulwark of protection for all jobless Americans. This would require, at the minimum, the following actions:

* improve the funding of the program by indexing the taxable wage base to at least 65 percent of the average annual wage;

* remove harsh eligibility and disqualification provisions;

* provide jobless aid to the long-term unemployed;

* establish federal minimum benefit standards;

* remove from the tax bill provisions that would subject unemployment insurance benefits to taxation;

* defeat any efforts by the Administration to transfer to the states, through so-called devolution, the responsibility for funding the administrative costs of the nation's unemployment insurance system.

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attachments

Percentage of jobless receiving UC benefits

Year	Percentage
1975	76%
1976	67
1977	56
1978	43
1979	42
1980	50
1981	41
1982	45
1983	44
1984	34
1985	33.6

Percent of Long-term unemployed receiving benefits

	Total unemployed (July) 27 weeks or more	
1980	889,000	33.9%
1983	2,636,000	36.7%
1984	1,608,000	21.3%
1985 (Dec.)	1,145,000	1.1%

State Taxable Wage Base, 1986

Alabama	$ 8,000	Montana	12,200
Alaska	21,600	Nebraska	7,000
Arizona	7,000	Nevada	11,400
Arkansas	7,500	New Hampshire	7,000
California	7,000	New Jersey	10,700
Colorado	8,000	New Mexico	10,300
Connecticut	7,100	New York	7,000
Delaware	8,250	North Carolina	9,200
District of Columbia	8,000	North Dakota	10,800
Florida	7,000	Ohio	8,000
Georgia	7,500	Oklahoma	8,900
Hawaii	15,600	Oregon	14,000
Idaho	15,600	Pennsylvania	8,000
Illinois	8,500	Puerto Rico	7,000
Indiana	7,000	Rhode Island	11,000
Iowa	12,000	South Carolina	7,000
Kansas	8,000	South Dakota	7,000
Kentucky	8,000	Tennessee	7,000
Lousiana	7,000	Texas	7,000
Maine	7,000	Utah	12,600
Maryland	7,000	Vermont	8,000
Massachusetts	7,000	Virginia	7,000
Michigan	9,500	Washington	11,500
Minnesota	10,700	West Virginia	8,000
Mississippi	7,000	Wisconsin	10,500
Missouri	8,000	Wyoming	9,900

Note: The Federal Unemployment Tax (FUT) is levied on the first $7,000 of earnings. This collection is used to fund the administrative expenses of the system at both the state and the federal level. It is also used to pay the federal share of extended benefits and to advance loans to states whose trust funds have been depleted. 34 states have adopted a taxable wage base above $7,000. Collections from this tax are deposited in the state trust fund account and can only be used to pay regular benefits.

Chairman **Ford**. Thank you very much.

The Chair will recognize Mr. Brown.

STATEMENT OF WILLIAM R. BROWN, PRESIDENT, COUNCIL OF STATE CHAMBERS OF COMMERCE

Mr. **Brown**. Thank you, Mr. Chairman.

This is one of the occasions where the Council of State Chambers of Commerce finds itself in considerable agreement with AFL-CIO, especially the sentiments expressed by Mr. Ellenberger on page 4 on his specific concerns with H.R. 758 and H.R. 1690. We share the same concerns.

We are, however, sympathetic to the purpose of this hearing, that is attempting to find ways to help workers whose jobs have been permanently lost.

However, as has been alluded to several times today, the $64 billion question is how can we do it in this era of Gramm-Rudman-Hollings?

The UI trust funds are financed primarily by payroll taxes paid exclusively by employers, and we share the Labor Department's concern about the integrity of those funds. We also share the concern of the AFL-CIO that they be there to pay adequate benefits to the workers who are entitled to draw those benefits.

Therefore, we are quite concerned when we have proposals for alternate use of those funds which go contrary to the basic concepts of unemployment compensation—in fact, specifically in the case of the self-employment allowance, the basic principles of the unemployment insurance system would be suspended.

We feel that such use of the trust funds, such as those being considered here today, undermine the basic purpose of providing adequate benefits to those who are entitled to them. And when Congress adds responsibilities unrelated to the regular UI programs, as it has done from time to time, it is making what the employer community considers an improper use of the trust funds.

That is, if employer taxes are indeed used to finance the unrelated activity—now if you can find the funds from other sources, many times we have not objected, if it is not the employer taxes being used. But perhaps more important from a political viewpoint, such use of UI funds decreases the ability of the UI system to carry out its basic mission of paying adequate benefits to eligible claimants in a timely manner.

Now I have great admiration for Congressman Wyden. He is a very bright young man, but his understanding of how the unemployment compensation works doesn't quite jive with mine, as to how his proposal might work out in practice. I am afraid it would adversely affect the employer experience rating and could adversely affect the trust funds.

The self-employment allowances, though, I think can be especially objectionable to small business. I had hoped, as a matter of fact, to have a small businessman here to testify today, but unfortunately the problem with small business people is by their very nature they're home running their business. I am going to bring a small business witness in one of these days, however, if we can have enough advance notice and what-not and hit the right time. The problem is they usually can't get away.

But in this case, in the case of Mr. Wyden's bill, you are asking the small businessman to in effect finance his competition, because the best prospect for self-employment allowance would be somebody who had worked for a small businessman or a tradesman and learned that business or trade. What he would be most qualified to do in setting up his own business, using his self-employment allowance, would be to pursue the same line of work.

So, in effect, the small businessman would be financing competition and I am sure you will find that many small businessmen would be very incensed about it.

So, aside from any matters of principle involved here—and we are concerned about the principle of the integrity of the trust fund—I think there are some very practical problems here in expecting the small business person to finance his competition.

So in conclusion, although the objectives of such proposals are praiseworthy, using the unemployment compensation trust funds is the wrong way to achieve it, both in principle and practicality.

Thank you.

[The prepared statement follows:]

STATEMENT OF WILLIAM R. BROWN, PRESIDENT, COUNCIL OF STATE CHAMBERS OF COMMERCE

SUMMARY

1. Sympathetic to purpose of hearing—But How About Gramm-Rudman-Hollings?
2. Use of employer financed UI funds for any purpose other than those intended in the basic statutes, no matter how worthy, poses major problems.
3. Alternate uses undermine the basic purpose of paying adequate benefits.
4. The self-employment allowance would make inapplicable the most basic availability, work search, and suitable work principles—to not apply them is to change the very nature of the UI Program to one that it is not appropriate to finance by employer taxes.
5. Small Business would have the greatest objection to the proposed self-employment allowance since it would be financing its competition.
6. Although the objectives are praiseworthy, using the employer financed UI Trust Funds is the wrong way to achieve them both in principle and practicality.

STATEMENT

I am William R. Brown. I appear here today as President of the Council of State Chambers of Commerce on behalf of the Council's Employee Benefits and Relations Committee.

INTRODUCTION

We are sympathetic to the purpose of this hearing—that is attempting to find ways to help workers whose jobs have been permanently lost.

However, the 64 billion dollar question is . . . "How can it be done in this era of Gramm-Rudman-Hollings?"

USE OF UI TRUST FUNDS POSES MAJOR PROBLEMS FOR EMPLOYERS

The UI Trust Funds are financed primarily by payroll taxes paid exclusively by employers. Use of these funds for any purpose other than those intended in the basic statutes, no matter how worthy, poses major problems for employers, and I think also for their employees.

The primary purpose of the employer financed trust funds is to provide unemployment benefits for the short term unemployed, who are unemployed through no fault of their own, who have demonstrated an attachment to the labor force and to continue as an active member of that labor force.

Other uses of the Trust Funds, such as those being considered here today, undermine the basic purpose of providing adequate benefits to those who are entitled to them.

The statement announcing this hearing says, ". . . the unemployment insurance system appears to be doing a good job in helping workers over temporary and relatively short spells of unemployment . . ." The point is that this is precisely what the employer financed Unemployment Compensation system was meant to do.

When Congress adds responsibilities, unrelated to the regular UI programs, as it has done from time to time, it is making what the employer community considers an "improper use of funds"—if employer taxes are indeed used to finance the unrelated activity. Perhaps more important, from a political viewpoint such use of UI funds decreases the ability of the UI system to carry out its basic mission of paying "adequate" benefits to eligible claimants in a timely manner.

SELF-EMPLOYMENT ALLOWANCES ILLUSTRATE PROBLEM

H.R. 1690 illustrates intrinsic problem. Section 2(d) page 5 says:

State requirements relating to availability for work, active search for work, or refusal to accept suitable work shall not apply to an individual receiving a self-employment allowance under this Act as long as the individual is self-employed.

These are the most basic principles of the UI program—to not apply them is to change the very nature of the Program to one that is not appropriate to be financed by employer taxes.

SMALL BUSINESS WOULD HAVE GREATEST OBJECTION

Small business objections to the self-employment allowance are especially strong—in effect you would be asking the small business person to finance the competition! This would be the case because it is highly unlikely that the modest allowance contemplated would permit anyone to compete with a large or even middle-sized business. In fact, the most likely prospect to make good use of a self-employment allowance is someone who has learned a business or trade by working for a small business or tradesman—probably in the service because that is where the growth is. The allowance recipient obviously will stand the best chance of success if he does what he knows how to do and has experience doing it. This recipient's allowance would be financed by the former employer's taxes.

The self-employment allowance, financed from the UI Trust Funds, thus is a formula for producing a lot of unhappy existing small business people while pursuing a reasonable objective of helping to encourage creation of new small businesses.

CONCLUSION

The conclusion is that although the objectives are praiseworthy—using the Unemployment Compensation Trust Funds is the wrong way to achieve them—both in principle and practicality.

Chairman Ford. Thank you.

Mr. Rosenbaum.

STATEMENT OF STEVEN F. ROSENBAUM, MANAGER, UNEMPLOYMENT INSURANCE AND WORKERS' COMPENSATION, ILLINOIS STATE CHAMBER OF COMMERCE, ALSO ON BEHALF OF COALITION OF THE STATES FOR IMPROVED SOLVENCY

Mr. Rosenbaum. Good afternoon, Mr. Chairman, and thank you for the opportunity to give the presentation.

My name is Steve Rosenbaum, and I am the manager of the workers' compensation and unemployment insurance programs for the Illinois State Chamber of Commerce.

I would like the record to show that I did vote this morning in the Illinois' primary. I was the second voter in the precinct at 6 a.m. so that I could be here today.

Chairman Ford. Well, I trust that you voted the right way. [Laughter.]

Mr. Rosenbaum. Today I am speaking on behalf of the Coalition of States for Improved Solvency. This coalition was formed by the

Illinois State Chamber and is comprised of State chambers of commerce from eight States: Illinois, Louisiana, Michigan, Montana, Ohio, Pennsylvania, West Virginia, and Wisconsin.

As a backdrop, with the chairman's permission, I will just highlight the remainder of my testimony.

Chairman FORD. The full text will be included in the record.

Mr. ROSENBAUM. We certainly recognize and share your concern in addressing the issue of providing assistance to the dislocated worker. There is no question that the States that I have noted have a disproportionate share of those dislocated workers, and Illinois' unemployment rate dramatically increased last month, which was noted earlier in testimony.

The point also remains that we do not have reserves in our UI trust funds for alternative uses, so that the dislocated workers in the States we are representing would not be able to take advantage of any options which would be afforded by the proposals being considered. The real answer to the unemployment insurance problem in our States, and also for the dislocated worker is economic recovery. There is something that Congress can do, which we believe would assist greatly in the economic recovery of our States.

In 1983, Congress adopted two key provisions which capped Federal unemployment tax penalties for employers and permitted States to defer interest payments on outstanding interest-bearing obligations. The key reasoning behind that law, which lasted for 3 years, is as follows: Congress initially adopted the law for a temporary period so that you could determine if the law worked or not. We think the law has worked and worked darned well.

The debtor States responded with law changes which exceeded the solvency tests which Congress mandated. The incentives Congress offered through these provisions ensured that the debt is repaid in a more experience-rated manner and, as you well know, unemployment insurance is to be an experience-rated tax system.

For the States themselves, it permitted them to defer interest payments during a period when their general revenue funds were hardstrapped.

Practically speaking, the States sat down 3 years ago, and hammered out agreed bills between organized labor and business. Some of these compromises sunset this year. We have to go back at it, and we believe the incentives that Congress had provided should again be in existence.

Yes; the U.S. Department of Labor has assigned a dollar cost to extending the law. Let me point out the dollar cost which they have assigned is a deferred cost. It is not lost revenue.

Moreover, they will readily admit that the behavioral changes by States could more than offset the costs which they have assigned.

In fact, I would refer you to attachment 1. You will note because of the fact that there are penalty caps the net repayment in excess of penalties is $637 million from Illinois alone. We think the incentives that you provided to the States are very positive. We understand penalties. We also think that incentives are a good way to go.

This is a Federal-State partnership, and we hope you will consider extending those provisions which do provide incentives and will assist the dislocated worker as economic recovery is brought to our States.

Thank you, Mr. Chairman.

[The prepared statement and attachment follow:]

Illinois State Chamber of Commerce

20 North Wacker Drive
Chicago, Illinois 60606
312 372 7373

Testimony of the
Illinois State Chamber of Commerce
before the
Committee on Ways and Means
U. S. House of Representatives
Subcommittee on Public Assistance and
Unemployment Compensation
March 18, 1986

Good afternoon, I am Steven F. Rosenbaum, Manager of the Workers' Compensation and Unemployment Insurance Programs, for the Illinois State Chamber of Commerce (ISCC).

Today I am also speaking on behalf of the "Coalition of the States for Improved Solvency." This coalition was formed by the ISCC and is comprised of State Chambers of Commerce from eight states. The states represented are Illinois, Louisiana, Michigan, Montana, Ohio, Pennsylvania, West Virginia and Wisconsin.

We recognize and share your deep concern in addressing the issue of providing assistance to dislocated workers. There is no question that the states contained in our coalition have a disproportionate share of those dislocated workers. We encourage you to continue to look for solid answers to the problems confronted by these individuals.

However, from our perspective, consideration of alternative uses of unemployment compensation trust funds to assist such workers is fundamentally flawed.

Each of the states in the coalition has, or has had, significant outstanding debts owed to the Federal Government to repay for unemployment borrowings made to pay benefits. We do not have reserves in our U. I. Trust Funds. Therefore, the alternative use of unemployment compensation Trust funds is not an option available to the very states which have a high percentage of the dislocated workers in the United States.

The real answer to the unemployment problem in our states is economic recovery. Congress could greatly assist our recovery by extending the federal law that allows states which improved the overall solvency of their unemployment insurance system to qualify for caps on Federal Unemployment Tax (FUTA) penalties and permits state governments to defer a certain percentage of interest assessed on U. I. borrowings.

In short, a brief explanation of the key provisions is as follows:

Loss of Employer Federal Unemployment Tax Credits

Those states which do not repay outstanding loans before November 10th, each year lose a portion of the offset Federal Unemployment Tax (FUTA) credit. These "penalties" are used to repay delinquent loans. The penalties are assessed in 0.3% increments unless states qualify for full or partial caps. Complex solvency tests have been established which the United States Department of Labor will review in order to certify a state's qualification for penalty caps. States which meet these tests may be able to cap their existing FUTA penalty at its current level or face increases of 0.1 or 0.2% rather than the full 0.3%. To achieve USDOL certification a state must have substantially improved the overall solvency of its UI Trust Fund and must not have taken any action jeopardizing debt retirement.

State Deferral of Interest Payments

The law also permits states to defer interest payments. The key deferred payment section provides that those states which adopted legislation that increased tax revenues and/or decreased benefit levels by 25%, 35% and 50% over a three year period are permitted to defer payment of 80% of the interest charges accrued in fiscal years 1983, 1984 and 1985. Those states would be required to pay a minimum 20% of the original interest charges in each of the next four years. Any state reneging on the initial solvency tests would face immediate repayment of all deferred interest charges.

The reasoning behind proposing the extension is as follows:

- Congress initially adopted the law changes on a temporary basis so that it would not be locked into a permanent change with an unknown effect. Unquestionably, the positive effectiveness of the proposals has been established and Congress' legislative intent has been met.
- Debtor states responded with law changes which exceeded the "solvency test" measures. The affected states took drastic action ensuring that they more than met the basic qualifications. Debtor states deemed it appropriate to take advantage of the law, but went even further than required in order to get a firm grasp on their UI problems. This is verified by the dramatic reduction in U. I. loans -- a reduction which exceeded everyone's projections (Attachment #1).
- The federal incentives ensure that debt repayment is more experience rated than it otherwise would be. The FUTA penalty repayment is contrary to effective experience rating, the fundamental funding mechanism of the unemployment insurance system. While FUTA penalties have increased, the cap criteria provide a means by which dramatic flat FUTA tax increases are avoided by improving state experience rated systems. In short, the FUTA cap law strengthens experience rating.

- State government general revenue funds are spared massive interest payments during difficult periods. Allowing interest deferrals provides for a better cash flow situation for state budgets and does not cause states to be forced to cut back even more on other vital services during U. I. borrowing periods. Allowing states to defer interest payments recognizes the Federal-State U. I. partnership.
- Many of the U. I. compromises which occurred between business and labor in debtor states in 1983 in response to the incentives, are due for renegotiation in 1986 (Attachment #2). Federal law contains effective penalties for states which allow their U. I. systems to falter. Conversely, federal law should contain "carrots" or "incentives" to ensure that states act prudently. The likelihood of states adopting long-term solvent U. I. systems is diminished if they still face the same FUTA penalties and interest charges irrespective of any new law changes. We are convinced that permitting the expiration of the incentives is counterproductive and could cause all interested parties to find a way to slow down voluntary, experience rated, repayment since FUTA penalties would remain the same despite any positive state action.

In conclusion, the provisions we seek extend help to those states which suffered disproportionately during the recession. On the other hand the proposals do not harm those non-debtor states. Nor do they hamper repayment or encourage borrowings -- in fact they discourage both by offering clear cut guidelines which benefit claimants, employers, state governments and the federal government by encouraging solvency in state unemployment systems.

ATTACHMENT #1

Illinois State Chamber of Commerce
20 North Wacker Drive
Chicago, Illinois 60606
312 372 7373

Illinois' Unemployment Insurance Debt Repayment

FUTA Penalty Repayments

	WITH CAPS	WITHOUT CAPS (Estimated)
1983 (Payable 1/84)	0.7% = $166 million	0.9% = $217 million
1984 (Payable 1/85)	0.8% = $204 million	1.2% = $288 million
1985 (Payable 1/86)	0.9% = $217 million (est.)	1.5% = $369 million
Subtotal	$587 million	$874 million
Add:	Voluntary Repayments	
1983	$-0-	*
1984	$545 million	*
1985	$379 million	*
Subtotal	$924 million	$-0-
Total Repayment	$1.511 billion	$874 million

Repayment: Differential		
	Repayment with caps	$1.511 billion
	Without caps	$ 874 million
		$ 637 million (Excess amount repaid due to financial incentives offered by FUTA caps.)

*Assumes no voluntary repayment due to lack of financial incentives.

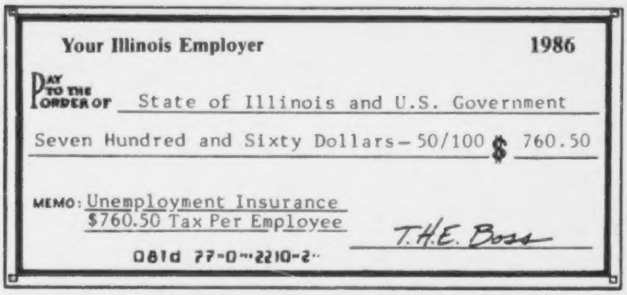
Attachment 2

Vol. II, No. 2
The Illinois Alliance for Economic Initiatives
20 N. Wacker Dr., Chicago, IL 60606

JOB$WATCH

We All Have a Share in Illinois!

WORKERS HELP RESCUE JOBLESS FUND!



Your Illinois Employer 1986

PAY TO THE ORDER OF State of Illinois and U.S. Government

Seven Hundred and Sixty Dollars—50/100 $ 760.50

MEMO: Unemployment Insurance
$760.50 Tax Per Employee

T.H.E. Boss

081d 77-0‥2210-2‥

Illinois unemployment insurance (UI) taxes are among the highest in the nation. One out of three Illinois employers pay the maximum UI tax: $760.50 per year per employee! The tax is determined by the amount of wages paid and the company's employment history.

YOU AND YOUR BENEFITS

Unemployment Insurance

by Sally Ward, Director,
Illinois Department of Employment Security

In 1985 Illinois and the nation celebrated the 50th anniversary of America's unemployment insurance system. But the concept of unemployment insurance is over 2000 years old!

As far back as 200 B.C. the nobility in ancient Rome gave returning soldiers small pieces of land. Julius Caesar later cultivated that idea and distributed free grain to unemployed veterans.

In 1935 the Congress of the United States, stunned by the devastation of the "Great Depression", created the first federal unemployment insurance system. As a provision of the Social Security Act all employers with eight or more employees (with some broad exceptions) were required to participate. Illinois enacted its Unemployment Compensation Act in 1937.

Illinois' unemployment insurance benefits are paid from a trust fund to which only employers contribute. No deductions are made from the wages of workers for this purpose nor do trust fund dollars pay for operating or administrative costs.

The fund is administered by the Illinois Department of Employment Security (IDES). In 1984 IDES collected $1.3 billion in unemployment insurance taxes from 240,000 Illinois employers.

On a typical day this agency prepares and mails over $3 million in benefits, takes more than 3,000 initial claims for those benefits, and refers more than 1400 applicants for employment to potential employers thru the Illinos Job Service.

Benefits are paid for 26 weeks. In 1984 the average length was 17.6 weeks, the average weekly benefit $133.55.

IDES awards benefits to claimants who worked for insured employers during a 12 month or "base" period. The amount of benefits is "based" on the amount of wages earned. Such factors as the claimant's reason for losing a job and availability, ability, and efforts to find new employment are considered when determining eligibility.

In meeting its responsibilities to Illinois workers, IDES has grown to become the state's fifth largest agency, administering programs at nearly 130 offices in almost 100 Illinois communities. In Illinois unemployment insurance has come a long, long way from the days of Julius Caesar!

Employers Erasing Unemployment Debt

Due to a 1983 business-labor agreement, plus a strong economic recovery, the Illinios unemployment insurance (UI) trust fund has been rescued and is now operating in the black.

In August the UI trust fund sent the feds a check for $112 million, the final payment on an *interest bearing* loan made to the fund during the recent recession to pay benefits to laid-off workers. The fund also repaid another $500 million of a *non-interest bearing* loan made for the same purpose.

The balance owed the feds now stands at $1.1 billion, down from $2.6 billion in 1983. The fund expects to repay this in three years. When the debt is repaid the feds will lift a penalty of *$126 per year per Illinois employee!*

How did the UI trust fund sink so deep in debt? Here's how Bill Campbell, editorial director for WLS-TV (an Alliance partner) in Chicago, explained it to his television audience:

"If you're like most people," Campbell said, "you may think that unemployment insurance is paid for by taxes or through deductions from your paycheck. ***But unemployment insurance is paid for by your employer. And in Illinois the rates are the third highest in the nation . . .*** $117 more per employee than the national average!

"The reason our rates are so high dates back to 1975 when Illinois passed a law increasing benefits. But we couldn't recover the costs of all these new benefits. So we borrowed heavily from the federal government.

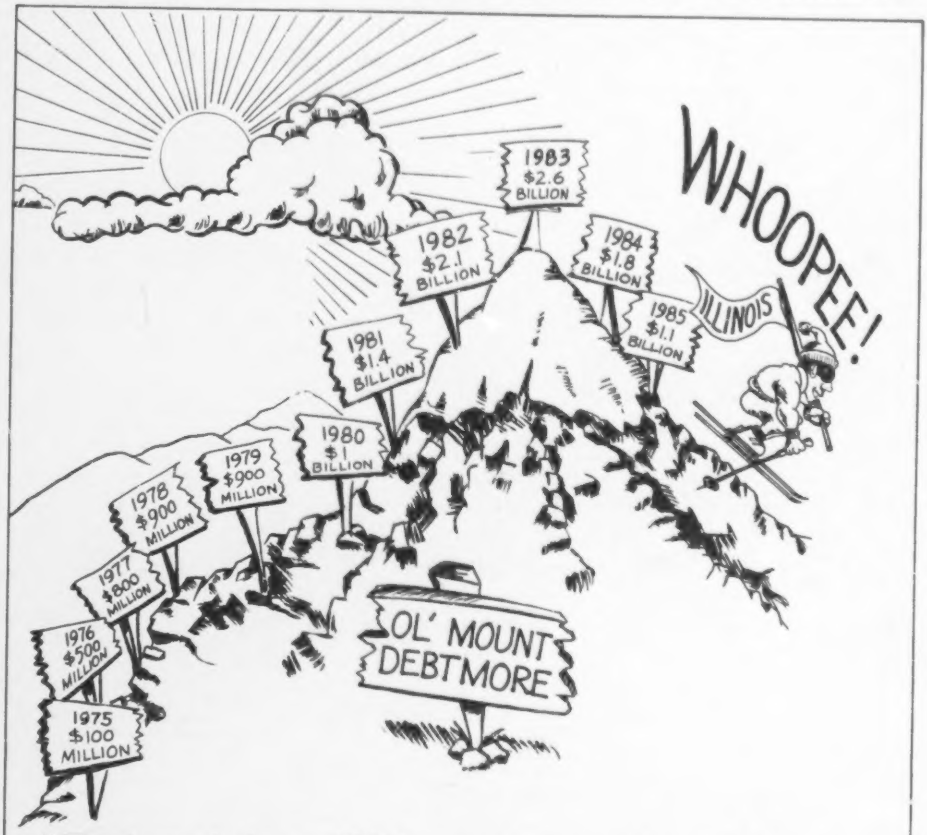
"Fortunately a 1983 agreement between business and labor is succeeding in getting that debt paid off. ***Labor agreed to fewer benefits. Business agreed to higher rates.*** And by 1988 the debt should be cleared.

"This is all well and good. But in our opinion it's a short-term solution to a long-term problem," Campbell said.

"If we want to attract (and retain jobs in) our state, we must find a way to make certain unemployment taxes come down and stay down. The current agreement between business and labor expires in June, 1986. ***And it's not too soon . . . to look for a new and permanent solution to unemployment insurance for our state,"*** Campbell said.

The Illinois Alliance
for Economic Initiatives

JOB$WATCH
We All Have a Share in Illinois!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"Fortunately a 1983 agreement between business and labor is succeeding in getting (the unemployment insurance) debt paid off. Labor agreed to fewer benefits. Business agreed to higher rates. And by 1988 the debt should be cleared."

from a WLS-TV (Chicago) editorial by Bill Campbell, editorial director

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Chairman Ford. If we do that, are you willing to take further solvency steps in exchange for an extension of the FUTA cap?

Mr. Rosenbaum. I believe if Congress felt that was appropriate, we would have to definitely look at it. I believe we would, Mr. Chairman. We would have to look at the will of Congress.

Chairman Ford. Thank you. Mr. Blue. The full text of your statement will be inserted in the record.

STATEMENT OF WARREN G. BLUE, CHAIRMAN, SUBCOMMITTEE ON UNEMPLOYMENT COMPENSATION, NATIONAL ASSOCIATION OF MANUFACTURERS, AND SENIOR VICE PRESIDENT AND GENERAL COUNSEL, R.E. HARRINGTON, INC.

Mr. Blue. Thank you, Mr. Chairman. We are very pleased, on behalf of the NAM, to be on this panel and I do mean all members of the panel appreciate it.

The problem with the dislocated worker or what has been popularly known as the structurally unemployed, is a very serious problem.

The independent surveys which we have seen ascertain that the numbers could reach any place between 500,000 and 2 million structurally or dislocated workers. It is a serious problem which must be addressed.

Training programs in conjunction with the unemployment insurance system is an idea which should be explored. In our opinion, it does not provide a proper vehicle since the program itself is not truly a national program but basically a State program. It is financed by experience rated taxes, 90 percent of it, on employers. It is a program which is in dire financial straits even today.

The objectives of the system are fairly simple. It is designed to serve the needs of workers, genuinely part of the work force, who are temporarily and involuntarily unemployed through no fault of their own. Those individuals receiving assistance should be and are required to be actively seeking employment while receiving benefits.

It sustains the purchasing power of the individuals who are out of work, preventing secondary or tertiary levels of unemployment, and, as mentioned before, it does retain a pool of workers for those who are temporarily unemployed for short periods of time for the employer who had formerly employed the ex-employees.

For these reasons, the National Association of Manufacturers considers unemployment beneficial to employers and the cost of benefits may rightly be treated as a cost of doing business.

This is how it was conceived in 1935, although there have been some variances from the goals. The system is still working. Congress originally gave the States broad discretion to structure their individual State programs. The States may still determine the amount and duration of benefits, condition of benefit qualification, and related matters, and the State programs reflect the unique economic and social atmosphere of each State and respond effectively to cyclical variations.

That's the way it should continue to be run. With this background in mind, may I address particularly the three bills before this committee.

H.R. 1690 provides for a demonstration program for selected States that meet stated criteria. Under the program, individuals who would ordinarily receive unemployment compensation benefits on a weekly basis could receive lump-sum payments in order to establish an entrepreneurship. The eligibility of individuals for this self-employment allowance and the amount of assistance is defined in the bill. It doesn't stretch the imagination too far to see the opportunities for abuse in this particular provision.

The system was designed to provide temporary help to workers who have lost their jobs. Hopefully the concept of the system still remains, that the individual will be out of work for a short period and the weekly unemployment check provides short-term relief during the job search.

As I said before, the taxes that the employers pay through a merit rating system encourage them to maintain stability in their employment practices. Merit rating would lose its effectiveness if the maximum benefits provided under this bill were paid to a large number of claimants. The charges would be so significant that the tax rates could reach the top of the schedule.

We have a noble purpose but I believe it does ignore some rather practical implications. Obviously a person dissatisfied with his position and eager to start his own business might be attempted to abuse the system as I have said.

Also, why should an individual receive a lump-sum payment of up to 26 weeks, which by the way, in some States can exceed $6,000, when he might have found another job within 2 weeks? I don't think it has to be told of the number of failures of small businesses due to bankruptcy and other reasons, just lack of knowing how to run a small business. The percentages are pretty significant in this country. We don't believe that the taxpayers in the long run and the employers in the short run should support this kind of a concept.

H.R. 1947 promotes training programs for individuals receiving unemployment compensation. Under this bill a State would set criteria for both training programs and the eligibility of individuals to receive benefits for training costs or funds for training costs. The present Federal law allows claimants to participate in State-approved training programs while receiving benefits. The law does not require an individual enrolled in such a program to be actively involved in a job search. States have the ability to set the parameters for the training accreditation and the individual eligibility.

The NAM supports training programs for recipients of UC benefits with two caveats. First, funding for training should not come from unemployment compensation trust funds. Second, the training an individual receives should be realistically geared toward giving that person skills that are needed in the job market.

Before a State approves a particular training program, several criteria should be met. H.R. 1947 contains much of that criteria. The bill states that before a training program is approved by a State, it must be determined that the training is reasonably targeted to existing opportunities. Also the State should consider if an individual's prospects for obtaining suitable employment would be improved as a result of the completion of the program.

We feel some modification should be made. The bill has a very limited effect on the unemployment compensation system. I am sure the administrators will probably complain about the cost of administration, which is a justifiable concern. The bill is basically conceptually sound if implemented as a State program.

H.R. 758 provides for unemployment compensation payments to an individual who has work reduced or who voluntarily leaves a firm facing a major reduction in employment and enters a State-approved training program. The individual could receive up to 125 percent of regular unemployment benefits.

H.R. 758's accelerated payment provision goes beyond a mere linkage between unemployment insurance and training. Under that provision, both claimants and ineligible ex-employees would be trained and funded by the UI system.

We believe the legislative history clearly states the purpose of UI is to aid the short-term involuntarily unemployed. This bill, I am sorry to say, is your bill, and I don't think it does that.

There is an existing program in place that has been mentioned many times. I am not going to repeat it, the Job Training Partnership Act. The NAM is fully in favor and supports the Job Training Partnership Act Program and has consistently advocated its use and involvement by our members. It was specifically set up to provide the incentive for business to provide training and retraining of workers without requisite skills. Both the individuals and businesses have benefited from JTPA.

We certainly appreciate the opportunity to testify on these bills. We should probably complete by explaining that the NAM is working with other business organizations and the Department of Labor on several initiatives aimed at helping the dislocated worker reenter the job market. One of our most important undertakings is our participation in the Department of Labor's endeavors to improve the Employment Service, which was mentioned earlier in regard to a 7-percent placement rate.

We also support tax incentives for business to train and retrain employees and we will continue to play an active role in dislocated worker discussions and we look forward to working with Congress in solving this very, very serious problem.

Thank you.

[The prepared statement follows:]

TESTIMONY OF
WARREN G. BLUE
SENIOR VICE PRESIDENT/GENERAL COUNSEL
R. E. HARRINGTON, INC.

ON BEHALF OF
THE NATIONAL ASSOCIATION OF MANUFACTURERS

ON
ALTERNATIVE USES OF UNEMPLOYMENT COMPENSATION TRUST FUNDS

BEFORE THE
SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION
OF THE
HOUSE COMMITTEE ON WAYS AND MEANS
MARCH 18, 1986

Mr. Chairman and members of the Subcommittee, I am Warren Blue, Senior Vice President and General Counsel of R. E. Harrington, Inc. I am testifying today on behalf of the National Association of Manufacturers as Chairman of the Unemployment Compensation Subcommittee for NAM. Accompanying me today is Jim Conway, Director of NAM's Human Resources and Equal Opportunity Committee.

The National Association of Manufacturers is a voluntary business association of over 13,500 corporations, large and small, located in every state. Eighty percent of the firms are considered to be small businesses. NAM member companies employ 85 percent of all workers in manufacturing and produce over 80 percent of the nation's manufactured goods. NAM is affiliated with an additional 158,000 businesses through its Association Council and the National Industrial Council.

On behalf of our members, the National Association of Manufacturers is pleased to submit our views on proposals for alternative uses of unemployment compensation trust funds.

I. THE DISLOCATED WORKER

Over the past ten years our country has seen drastic changes in employment needs. Structual changes in the "smoke stack" industries and the trend towards high technology have created a changing economy which has left many workers without the requisite skills needed to compete in today's job market. Imports in steel, rubber and textiles and robotics on assembly-lines have eliminated some jobs forever. The result of these changes is a different type of unemployed person called the dislocated worker.

A dislocated, or displaced worker is a person who is unemployed, laid off or about to be laid off, and is unable to return to their previous occupation because their skills have become obsolete or because of technological changes in their industry. There is no certain manner or formula to ascertain the number of displaced workers in our society. Many have long ago exhausted their unemployment insurance benefits. As a result, they are no longer counted by the Bureau of Labor Statistics. Independent surveys, however, have reported anywhere between 500,000 and 2,000,000 dislocated workers.

The NAM recognizes that the dislocated worker problem must be examined closely. It is a problem of national import and must be addressed by federal, state and local government initiatives. The NAM, as will be stated later on, has some ideas on how the dislocated worker problem should be approached. Training programs in conjunction with the unemployment insurance system (UI) is an idea which should be explored. We do not believe, however, that the use of unemployment compensation trust funds to assist dislocated workers would be the proper means to attack this problem.

II. THE UNEMPLOYMENT INSURANCE SYSTEM

The objectives of the UI system are fairly simple. Unemployment insurance is designed to serve the needs of workers, genuinely part of the workforce, who are temporarily and involuntarily unemployed for job-connected reasons. Those individuals receiving assistance should be actively seeking employment while receiving benefits. The dynamic nature of our industrial economy may bring cyclical periods of involuntary unemployment. Unemployment Compensation (UC) sustains the purchasing power of individuals who are out of work, cushioning the decrease in the demand for goods and services and thereby preventing secondary or tertiary levels of unemployment. For these reasons, UC is beneficial to employers and the cost of benefits may rightly be treated as a cost of doing business.

This is how the UC system was conceived in 1935; however, the system now has strayed to where it produces ever increasing demands for federal revenues financed by onerous taxes on employers. The results are higher budget deficits and disincentives for continued economic growth.

The NAM believes that the UC system should be returned to its original goals and the increasing federal involvement in the system should be limited. The responsibility for administration of sound public unemployment compensation systems should remain with the state governments. Federal legislative and administrative action already exceeds its proper scope.

Congress originally gave the states broad discretion to structure their individual state UC programs. The states may thus determine the amount and duration of benefits, conditions of benefit qualification and related matters. The state programs reflect the unique economic and social atmosphere of each state and respond effectively to cyclical variations.

State-administered unemployment compensation should provide reasonable benefits to the eligible unemployed. These benefits should not impair the incentive to look for and accept work. As a partial wage replacement program, benefits should not be adjusted on the basis of relief concepts.

The NAM position is that unemployment compensation benefits should be related to earnings and service from previous employment and constitute a partial indemnity for loss of wages. Adjusting the amount of benefits on the basis of presumed or established "needs" is inconsistent with the purpose and philosphy of UC and must not be permitted. State-administered unemployment compensation systems should be fair to all and should provide reasonable benefits for all eligible individuals while preserving the incentive to look for and accept work.

III. ALTERNATIVE USES OF UNEMPLOYMENT COMPENSATION TRUST FUNDS

With this background in mind, let me now turn to some of the bills that have been introduced in the House that propose changes in the UI system.

H.R. 1690 (Wyden; D-OR) provides for a demonstration program for selected states that meet stated criteria. Under this program individuals, who ordinarily would receive unemployment compensation benefits on a weekly basis, could receive lump sum payments in order to establish an entrepreneurship. The eligibility of individuals for this "self employment allowance" and the amount of "assistance" available is defined in the bill.

It is not stretching the boundaries of imagination to foresee an unemployment insurance recipient with a great idea for opening a flower shop who turns to the state unemployment office for financing. The basic problem, and there are several others, is that the bill proposes to use the UI system as a financier for entrepreneurship and that is not the purpose of unemployment insurance. Again, the UI system was designed to provide temporary help for workers who have lost their jobs. Hopefully, the individual will be out of work for a short period and the weekly unemployment check provides short term relief during the job search. The federal unemployment taxes that employers pay encourage them to maintain stability in their employment practices.

H.R. 1690, while noble in purpose, ignores several practical implications. First, a person dissatisfied with his position and eager to start his own business might be tempted to abuse such a system. Also, why should an individual receive a lump sum payment of 26 weeks when they might have found another job within two weeks? With all the small business failures and bankruptcys in this country what is the criteria for determining the possibility of success of a new business? Finally, is it a good investment of our tax dollars since, ultimately, it will be the taxpayer who picks up the cost for a business failure?

To many, the millions of dollars in unemployment compensation trust funds are an attractive and tempting source of revenue for various social ills. But let us not forget what the money is for and why the UI system was set up. If a person wants to start his own business, he should not turn to the UI system for funding. The Small Business Administration would be one source for venture capital.

I'll discuss the next two pieces of proposed legislation in the UI area in tandem since they both focus on the issue of training and unemployment compensation benefits.

H.R. 1947 (Kennelly; D-CT) promotes training programs for individuals receiving unemployment compensation. Under this bill a state would set criteria for both training programs and the eligibility of individuals to receive state unemployment trust funds for training costs.

Present federal unemployment insurance law allows claimants to participate in state approved training programs while receiving unemployment compensation benefits. The law does not require an individual enrolled in such a program to be actively involved in a job search. States may set the parameters for training accreditation and individual eligibility.

The NAM supports training programs for recipients of UC benefits with two caveats. First, funding for training should not come from unemployment compensation trust funds. Secondly, the training an individual receives should be realisticly geared towards giving that person skills that are needed in the job market. In short, training must be linked with job placement.

Before a state approves a particular training program, several criteria should be met. H.R. 1947 contains such criteria. The bill states that before a training program is approved by a state, it must be determined if the training is reasonably targeted to existing employment opportunities. Also, the state should consider if an individual's prospects for obtaining suitable employment would be improved as a result of completion of a particular training program. Though we feel some modification should be made, H.R. 1947 is conceptually sound.

H.R. 758 (Stark, D-CA) provides for unemployment compensaton payments to an individual who voluntarily leaves a firm facing "a major reduction in employment" and enters a state approved training program. Under this legislation, a person could receive accelerated payments, up to 125 percent of his regular unemployment compensation; if enrolled in a training program.

H.R. 758 accelerated payment provision goes beyond a mere linkage between unemployment insurance and training. Under that provision, a claimant's training is funded by the UI system. Again, legislative history clearly states the purpose of UI is to aid the short term, involuntarily unemployed and to provide economic stability. There are other federal programs in place with the specific objective of providing training for individuals without necessary skills.

IV. JOB TRAINING PARTNERSHIP ACT

Reformation of the unemployment insurance system is not the focus of this hearing nor are the legislaive proposals we have discussed today. Rather, the objective is to consider different approaches to the prob of the dislocated worker. To that end it must be remembered that there is a federal program that is geared to improve the lot of the dislocated worker. That program is contained in Title III of the Job Training Partnership Act of 1982 (JTPA).

The JTPA represents a significant departure from previous employment and training legislation. The JTPA provides a unique public/private partnership giving business the responsibility and authority to work with government in employment and training. Strong business participation ensures that state and local job training efforts reflect the realities of the economy.

The NAM supports the JTPA program and has consistently advocated its use and involvement by our members. This program was specifically set up to provide the incentive for business to provide training and retraining of workers without requisite skills. Both the individual and business have benefitted from JTPA. Unemployment insurance should provide relief for the short-term unemployed. For those in need of acquiring new skills, the JTPA is the program they should turn to.

V. CONCLUSION

Mr. Chairman, the NAM appreciates the opportunity to comment on these legislative initiatives before this Subcommittee. The dislocated worker is relatively new to our society. We applaud the members of the Subcommittee for realizing the importance of helping the dislocated worker obtain the skills necessary to obtain employment in our nation's changing job markets.

The NAM is working with other business organizations and the Department of Labor on several initiatives aimed at helping the dislocated worker reenter the job market. One of our most important undertakings is our participation in the Department of Labor's endeavors to improve the Employment Service. We also support tax incentives for business to train and retrain its employees. The NAM will continue to play an active role in dislocated worker discussions and we look forward to working with members of Congress in providing dislocated workers with the opportunity to acquire skills necessary for contributing to our national economy.

Chairman FORD. Thank you, Mr. Blue, Mr. Rosenbaum, Mr. Brown, Mr. Ellenberger.

What can we do to identify the dislocated worker as soon as possible? There has been talk about whether or not we can identify the dislocated worker. Isn't there a problem with the workers realizing themselves maybe that they will have to change careers? If that is the case, what can we do to identify or what can be done to identify that dislocated worker sooner than we have done in the past?

Mr. BLUE. Can I respond to that, Mr. Chairman?

Chairman FORD. Mr. Blue.

Mr. BLUE. Again, it is something that probably somebody else could respond to easier but maybe no one in the panel is involved with it.

As I understand the State of Oregon, some States have initiated a very early analysis of the unemployed to the point of counseling and spending considerable time determining whether the individual is a structurally unemployed individual. The system itself, although I agree it may be difficult in a large industrial State, had at its hand the facility to determine who was unemployed by reason of who is collecting benefits and to approach that individual as quickly as possible to try to solve the very problem you are talking about.

I do know or I have heard that at least Oregon is one State that has done that.

Mr. ELLENBERGER. Mr. Chairman, I think there are a lot of people in the State employment security agencies who can in many cases identify structural or dislocated workers fairly soon in the process. This involves a determination between those who are unemployed because of seasonal factors, those who are unemployed through cyclical events in the economy, and those who are unemployed because of other factors: trade, plant closings, and other elements that are changing in our economy.

There are other ways we can identify those workers. I think we ought to be doing that. We were hoping to get a plant closing bill through the Congress, as you know, last November. It fell a little short. Certainly, plant closings result in a substantial number of dislocated or structurally unemployed workers.

In terms of what we can do to help those workers, we feel there are a lot of things that we can do. Some of those things can be done in the UI system. We can certainly continue to count as eligible those people who are engaged in training or retraining programs. We might even experiment in some cases as is the case in New Jersey, California and some other jurisdictions, with other programs.

Chairman FORD. Are you doing things to help them realize that they might have to change careers? Tell me what you are doing.

Mr. ELLENBERGER. If you are a steelworker and you have worked in a plant for 17 years and the plant has folded up and knocked down its furnaces, it is pretty clear you are going to have to find something to do other than shovel coal.

Chairman FORD. That's true in the steel industry. Outside of the steel industry, some of the other dislocated workers; what are we doing? I guess I am asking for personal reasons. I have a district myself where we have lost quite a few jobs because of industry and shops closing.

Mr. **Ellenberger**. I think one of the things we can do is improve the Employment Service and the counseling that unemployed and dislocated workers can receive in the process. They need the help. We have a system out there that is capable of providing that help, that is underfunded at the moment. We would argue that we ought to devote more resources to that.

Of all the industrialized democracies, the United States spends less of its GNP on labor market expenditures than any other country. We spend one-quarter of 1 percent of our GNP. Sweden, which spends the largest amount, is at 2.5 percent of its GNP. Britain, France, Germany; they all spend more than we do. Canada spends more than we do. They do have programs that help to fold changes in their economy into training programs and relocation assistance and assistance to the long-term structurally unemployed.

Chairman **Ford**. Thank you. Any other comments to the question from the panelists?

Mr. **Blue**. Mr. Chairman, I haven't eaten enough smart pills to be able to answer a question such as that. I think that is right at the crux of it, how to identify those individuals as early on as possible and how do we handle those individuals once we have identified them.

Chairman **Ford**. Thank you very much. I would like to thank each one of the panelists for your testimony and your responses.

The Chair would like to call the next panel, Mr. Robert Friedman, president of the Corporation for Enterprise Development; Ms. Connie Spruill, codirector of Entrepreneur Development Institute for Training, accompanied by Ruth Smith, a dislocated worker from AT&T. I am going to join these panels since one or two other witnesses have not arrived to testify.

I am going to ask Ms. Alicia Smith who is staff director for the Committee on Human Resources with the National Governor's Association along with Mark Sanders, president of the Interstate Conference of Employment Security Agencies also to come forward.

The Chair will recognize Mr. Friedman first.

Mr. **Friedman**. I wonder if we might start with Ruth Smith?

STATEMENT OF CONNIE SPRUILL, CODIRECTOR, ENTREPRENEUR DEVELOPMENT INSTITUTE FOR TRAINING, ACCOMPANIED BY RUTH SMITH, A DISLOCATED WORKER FROM AT&T

Ruth Smith. My name is Ruth Smith. I am from Columbus, OH. I am a laidoff factory worker from AT&T. After 14 years of service, I made the choice to start my own business because I wanted to control my own destiny from now on and not be dependent upon big business to provide my wages.

I have struggled since my layoff to build my business and make contacts to obtain clients. I feel I am at a disadvantage because I have been unable to obtain sufficient capital to finance my startup. I need approximately $3,000 to take care of costs for business cards, stationery, initial advertising, for promotion of my new business.

I was unsuccessful in securing any money from local banks for startup capital. I was told that banks do not normally loan seed money for startups, due to high risks. And if they did loan money, they would have to have collateral, such as a second mortgage or fixed asset. I am at a disadvantage in both areas.

Also, because I was presently unemployed, I have no guarantee that I could handle monthly obligations on a loan or, in fact, guarantee that I would have the capability to pay the loan back at all. Because I am a single, minority female over the age of 40 and do not have a husband to depend on for extra income, I feel I am at a definite disadvantage in any effort to obtain funds. I have not been fortunate enough to acquaint myself with rich friends, nor can I brag about any rich uncles.

I was able to qualify for a training program in Columbus, OH that worked with dislocated workers in helping them to start their own business. The 12-week course was free and through this training I put together my business plan, researched my market, identified my clients, and obtained training in managing my business.

I strongly encourage this subcommittee to work positively in getting bill H.R. 1690 passed because something like the opportunities offered in this bill would be of great importance to me. I would be able to promote my business in a more professional way to create income for myself and eventually be able to hire others, as my business grew.

My business, by the way, is C.K. Companion Service for the elderly. It is designed to help a family who wants to keep a loved one at home to do just that. I provide companionship and in-home care to the elderly and disabled who will allow family members who would be forced to stay out of the work force to care for these individuals to be able to seek gainful employment themselves.

Mr. **Frenzel**. Thank you, very much. Thank you.

Ms. **Spruill**. My name is Connie Spruill, Mr. Chairman, and I do not know if there is anybody from the former panel that was up here still in the room. Is there?

That is too bad because I would like to pick a couple of people apart.

I am the cofounder of the Entrepreneur Development Institute for Training in Columbus, OH and I am formerly from Cleveland, TN and I have relatives in Memphis, TN that have been affected by some furniture factory closings.

This organization, the Entrepreneur Development Institute for Training, presently is training dislocated workers under a JTPA grant to successfully launch and manage their own businesses. We have 23 dislocated workers that have recently completed 12 weeks of training on developing a business plan and marketing strategies and to sell their product or service.

Ruth Smith is one of those dislocated workers. Thirteen participants have been collecting unemployment while participating in this class. Three have exhausted unemployment benefits and the rest of them were disabled and could not go back to their former employment. Those still collecting benefits are very concerned that when the Bureau of Employment Services is contacted about their class completion, they will be forced to seek employment when what they really need to do is start marketing their business.

It does not make sense for them to go through this training and not have the opportunity to launch their business. In 99 percent of the cases, a source of income is needed during this critical time. Their source is their unemployment benefits that would ordinarily be cut off if they were not out seeking gainful employment.

To be secure in the fact that they have some source of income during the first year of marketing their businesses can make all the difference in the world in their attitude to continue and be successful.

I have brought with me written testimony from some of our participants that I would like to make part of the record, and they strongly encourage Congress to open doors that give unemployed people a chance to enjoy a piece of America's pie, which is owning their own business.

I would like to share with this committee examples of how this bill, H.R. 1690, would indeed provide the opportunity for the unemployed to employ themselves and take advantage of America's free enterprise.

John Morales, who has exhausted unemployment benefits, would have been able to use a lump sum payment to purchase computer equipment to be used in a home-based business to provide word-processing services, including maintaining mailing lists or clients' lists for clients.

Bev Soper collected unemployment while in class and has just recently launched her flea market dealer business with growth plans to become a statewide promoter. She held off launching her business publicly because she had to have the UI benefits to survive on while she was building her client base and to ensure her income when the UI benefits ran out.

Thornita Payne, another example, collected unemployment while in class, and wants to start a catering business that needs startup capital to buy necessary equipment to ensure a professional job for her clients in the beginning. She has been unsuccessful with the financial institutions because she is single with no assets and no source of income to ensure she would be able to pay back the loan.

I have many more testimonies with me that I will leave with the committee for documentation.

To sum it all up, banks are not interested in taking a risk to loan seed money. Venture capitalist, for obvious reasons, would not even consider investing in small mom and pop businesses or those run by economically disadvantaged women and minorities.

The Self-Employment Act of 1985 would be a godsend to those who would probably never have the opportunity to realize the satisfaction one feels in owning and managing one's own business. We urge this committee and Congress to continue to take care of the farmers and the factory workers and the truckers, many of which we have in our programs, and others who help make America great by giving back to them in the 1980's what they gave to America in the 1960's and 1970's, which is free enterprise and the opportunity to make America great.

I would like to add that I am a former dislocated worker. From 1968 until 1978 I was dislocated four times due to business failures or business closures. In 1978 I took it upon myself to start my own business. At that time, I was not married, with two children, not receiving child support. I went from a $6,000 a year income within

1 year to a $25,000 salary, running my own business. So I know that it can be done.

Thank you for this opportunity.

Chairman FORD. Thank you very much.

Mr. Friedman.

STATEMENT OF ROBERT E. FRIEDMAN, PRESIDENT, CORPORATION FOR ENTERPRISE DEVELOPMENT

Mr. FRIEDMAN. Thank you very much, Mr. Chairman, for holding these hearings, for allowing me to testify, for allowing me to change the order of presenters on you.

The reason I wanted to do that and the touchstone of my interest in your inquiry today is to open choices for unemployed people who have too few. I think it is good to have some specific cases in front of us.

My name is Robert Friedman. I am president and founder of the Corporation for Enterprise Development, a national nonprofit organization founded to explore ways of increasing the opportunities of all people to support themselves in the mainstream economy.

We have had the opportunity to work with the Governors of Ohio, Michigan, and South Carolina in designing comprehensive State economic development and job creation strategies. We have also had the opportunity to work in some rural communities hard hit by a wave of plant closings to recreate economies based on latent entrepreneurship.

You have my testimony. I will not repeat it. At this hour, I think to do so would be cruel and unusual punishment.

Chairman FORD. The full text will be made a part of the record.

Mr. FRIEDMAN. Thank you.

What I would like to focus on is some of the principles that I think should guide the exploration of alternative uses of unemployment compensation and specifically on the Self-Employment Opportunity Act, H.R. 1690.

Before I do that, I think it is useful to repeat: Why do we consider alternative uses of UI and particularly the use of UI to encourage self-employment? Fundamentally, I think it is because the economy has changed significantly since the late 1930's, when the UI system was set up. Because of that, we need to change our approach to achieving economic security.

The economy has changed, in that unemployment has been rising decade by decade, by 1½ to 2 percentage points. Increasingly we are faced not with cyclical unemployment, but structural unemployment. We know, on the basis of a recent OTA study, that 1.3 million of the 11.5 million people who lost their jobs between 1979 and 1984 are still unemployed. We also know that that unemployment is concentrated in certain areas.

Also, the nature of opportunity has changed in this economy. For the last 15 years the best data we have suggests that half of all new jobs created have been generated in independent businesses under 5 years old. Project that into the future: If that experience remains the same, it means half the jobs created in the year 1990 will be created by businesses that do not exist now and often by people who are not now in business.

Yet, we have very few economic policies aimed at increasing the opportunities for people not now in business to get in.

There is a dominant picture of the entrepreneur as a white male engineer in his midthirties, backed by venture capital, starting a high technology venture who starts out or turns into a Republican. That is an accurate description of some. It is not an accurate description of the 650,000 people who will start businesses this year. Most importantly, it is not an accurate description of all who could.

Often entrepreneurs are entrepreneurs of necessity. They choose entrepreneurship not because of positive opportunities, but because of dislocation. All small businesses and young businesses have a possibility of failing, but it should be noted that in the last recession you were less likely to lose your job if you were employed in a business employing under 100 employees than in one employing over 100 employees.

I think the purposes of the unemployment compensation system must stay the same. They are to increase economic security of people who are unemployed. I have appended a note to my testimony, talking about the purposes of the unemployment system, since we hear that some of these alternative uses would create a drastic departure.

I think that is not the case. We are seeking the same ends. We are considering altering some of the means.

I think in this economy, one of the best defenses to an economy in change is a good offense.

Let me suggest five principles that ought to guide our exploration of alternative uses.

First, we should not hurt existing and future beneficiaries of the system who will be temporarily unemployed and need temporary income support. Indeed, we should be concerned about exploring ways of increasing the adequacy of the system.

I think, though, we need to be careful to make the distinctions that several panelists earlier have made between allowing alternate uses of the trust fund and expanding the options open to the unemployed to use the benefits to which they are entitled in different ways. I support only the second.

It is important to note that part of the strain on the system is caused by increasingly high unemployment levels. We will not reduce that strain unless we can also reduce unemployment, and some of these self-employment options become a means of reducing that strain.

It should also be noted that in Britain and France, where they have allowed alternative uses of unemployment compensation to support self-employment, the Government figures that they actually have made money after 3 years.

Second, we ought to expand the choices open to the unemployed. Right now, if you are unemployed and you enroll in a training program or you try to pursue self-employment, you run a high risk of losing benefits.

It seems to me it is important to distinguish between two approaches to expanding these options. One, the minimalist position says let us simply remove the barriers in the system. Let us allow people to continue receiving unemployment compensation while they try to create a venture for themselves. The second, and admittedly more troublesome approach is to ask whether the system can actually help. That is, for instance, by advancing benefits in a lump sum.

No one has proposed, let me add, that any of the trust funds should be reallocated on a wholesale basis to fund self-employment ventures.

H.R. 1690, it should be noted, allows, but does not require, any State to explore the lump sum option.

We think there is demand for the self-employment option. Sixteen States, at least, have entrepreneurial training programs like the one Connie Spruill runs. Minnesota surveyed their unemployment compensation recipients recently and found 30 percent of recipients said they would be interested in starting a business and could name the specific business that they wanted to start.

In Europe, 150,000 people a year now are taking advantage of the British and French option in a labor market 40 percent the size of that of the United States. Early returns indicate that two-thirds of those businesses will last at least 1½ to 2 years. Six other European nations have since adopted those schemes on the basis of the British and French experience.

Third, it seems to me we should only pursue these options on an experimental basis, at this point. We simply do not have the data to know how they work. It seems to me important to use the States as laboratories, as Justice Brandeis suggested. States are interested. States can engage in some part of these demonstrations on their own, either by breaking out of their existing UI system—as California and Delaware have done—or by appropriating State funds. But they are constrained by the existing law.

We have separately pursued with States a self-employment option for welfare recipients. On the basis of that I feel fairly secure in saying that 7 to 10 States this year will engage in such demonstrations. A similar number of States, I think, would engage in this kind of demonstration if they were allowed.

Let me add one thing: The experiment H.R. 1690 would allow is carefully limited. It is restricted to no more than 10 States, no more than 5 percent of the eligible claimants.

Fourth, all of those demonstration efforts need to be evaluated.

The fifth principle is that, of course, in any total self-employment or economic development scheme, alternative uses of UI are only a piece of the puzzle and certainly not the whole thing. They will not always provide an adequate funding package, but again the experience in other countries is that the promise of these funds has enabled people to access, for instance, bank loans, which 30 percent of the recipients in Britain and France have been able to get as a result.

Allowing UI funds to be used to support self-employment efforts can act as a magnet to attract for the unemployed, some of the assistance which is not now available to them. In truth, most State economic development programs, most Federal small business programs never get to this group. By creating a hook, which is essentially what these options provide, we might well attract some of those resources and some of that help to people who arguably need it most and can take greatest advantage of it.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF ROBERT E. FRIEDMAN, PRESIDENT, CORPORATION FOR ENTERPRISE DEVELOPMENT

I am Robert Friedman [1] of the Corporation for Enterprise Development.[2] I want to thank the Sub-committee for holding these hearings, and for allowing me to testify. These hearings—and the proposals they consider—are an important and timely attempt to ask how the Unemployment Compensation system which has served to increase economic security for us so well for so long can best promote economic security in a new economy. The debate that begins today will not—and should not—end here, and the committee should take just pride in opening this discussion.

ECONOMIC SECURITY IN A CHANGING ECONOMY

The U.S. unemployment compensation system—forged during the Great Depression to increase the economic security [3] of employees during cyclical downturns—made sense then, and indeed, has worked quite well for fifty years. Crafted on the assumption that John Maynard Keynes had discovered the key to achieving full employment, the unemployment compensation system was required only to maintain temporarily unemployed workers, conserve their skills, and stabilize their purchasing power until economic equilibrium reasserted itself. In that era and in the years that followed, when American firms competed with "effortless superiority" in world markets, it was appropriate to assume that the cyclically unemployed would soon be reemployed by their former large-firm employers as soon as the recession ended.

But times have changed. Not only has full employment proved an illusive goal, but we seem to be moving further from it with the average unemployment rate climbing 1.5 to 2 percentage points a decade, from an average of 4.6% during the 1960s to 6.1% during the 1970s, to 8.2% in the first half of the 1980s. Moreover, we are in the midst of a major industrial restructuring; now a significant percentage of the jobs from which workers are laid off will never reappear. Of the 11.5 million adult workers who lost their jobs between January 1979 and January 1984, 1.3 million were still unemployed in January 1984. UI recipients cannot expect to return to their old jobs after a relatively short spell of unemployment.

If the nature and sources of dislocation have changed, so have the sources of opportunity in the new economy. When the UC system was established, the expectation was that each citizen would have a single career; now experts estimate that skill demands are changing so rapidly that the average worker can expect to have four in the course of a lifetime. But this requires lifelong learning and periodic retraining. And whereas growth in the post-War era was driven by the expansion of large firms in traditional industries, in today's changing economy, innovation—in products, services, and processes—is crucial, and increased entrepreneurship has become the key to growth. The best data we have suggest that half of the new jobs produced in the last 15 years have been generated in independent firms under five years of age.

This change in the economy requires a new approach to economic security. In the old economy, the key to economic security was passive and defensive. In the new economy, the best defense is often a good offense—proactive development of new skills and new jobs. Recognizing this, a number of states and other countries have begun to ask how the unemployment compensation system can go beyond simply providing temporary income support to support and encourage training, re-employment and job creation:

Training: Many states have taken advantage of the leeway given them to continue providing UI benefits to recipients enrolled in approved retraining programs. California and Delaware have levied new state taxes in lieu of federally governed UI taxes to fund retraining efforts. As of June 1985, California's Employment Training Panel program had helped 41,000 people train for jobs in 2500 firms. Most European countries allowed UI recipients to enroll in training programs and allow transfers of funds from income maintenance to training, sometimes in lump sums.

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[1] Robert Friedman is President and Founder of the Corporation for Enterprise Development, author of numerous articles on job creation, enterprise and economic development, including the forthcoming book The Safety Net as Ladder: Transfer Payments and Economic Development.

[2] CFED is a national non-profit organization devoted to expanding the opportunity for all people to support themselves in the American economy. Most of its work has focused on assisting states and localities devise new more effective economic development strategies.

[3] See "A Note on the Purpose of Unemployment Compensation" at the end of this testimony.

Worksharing: Worksharing, or short-time unemployment compensation, enables firms to spread the workforce reductions among employees and increase the ability of firms to expand during recoveries. It has been used extensively in Europe and Canada with thousands of companies and hundreds of thousands of workers participating. In 1962 the U.S. Congress amended the UI law to encourage states to experiment with worksharing in a three year demonstration.

Relocation: Unemployed Japanese can receive benefits in a lump sum to finance relocation.

Self-~~Employ~~ment: In 1979, France amended its unemployment compensation law to allow recipients to collect six months benefits in a lump sum to create their own businesses. Today French citizens can collect up to 40,000 FF ($4,900) to start a business. To date, more than 175,000 have taken advantage of Chomeur Createur (Unemployed Entrepreneur) program. 80,000 are expected to participate this year alone. Evaluations of 24,000 businesses started during 1981–82 found that 60–80% of the businesses survived at least one year and created an average of two jobs each; 50% of recipients say they would not have started a business but for the program; another 25.8% doubted whether they would have.

In 1982, Great Britain started its Enterprise Allowance Scheme under which any citizen unemployed more than 13 weeks, eligible for unemployment compensation, social security (i.e., welfare), could collect 40 Pounds/week for up to 52 weeks while trying to start their own business. To date more than 100,000 have done so; this year alone 80,000 unemployed are expected to take advantage of the EAS (about 2% of those eligible). Evaluation of the initial pilots found that 70% of firms started were still trading 18 months after start up, creating an average of 1.5 jobs each. Seventy percent of the entrepreneurs say they would not have started a business at all or as soon without EAS. The Manpower Services Commission estimates that by the third year, the British Treasury actually makes money on the scheme.

In the last three years, Ireland, Belgium, the Netherlands, Sweden, Spain and Australia have begun some version of the British or French programs.

More information on these and other similar programs are contained in "Transfer Payment Investment Policy: Letting Them Have Their Boots and Their Bootstraps Too," attached.)

The question that remains is what leeway will Congress give to the unemployed and states in the U.S. to experiment with such approaches.

GUIDELINES FOR U.S. EXPERIMENTATION WITH ALTERNATIVE USES OF UNEMPLOYMENT COMPENSATION

The experience in other countries and pioneering states with allowing unemployment compensation recipients to pursue training, re-employment, and self-employment options while receiving their unemployment compensation has been sufficiently positive to warrant experimentation here. But that experimentation should be undertaken with care that the traditional purposes of the UI system are not undermined, and with cognizance that there is insufficient experience or data to determine the true costs and benefits of various approaches and program designs. We suggest five guidelines:

First, options ought not to hurt beneficiaries who don't take advantage of them. States should enhance developmental opportunities without undermining the unemployment compensation system's traditional and primary maintenance role.

Second, the choices open to unemployment compensation recipients ought to be increased. The routes to re-employment are as varied as the causes that led to unemployment. Choices that may only be appropriate for a small percentage of the eligible population can be significant. States should afford the maximum discretion to beneficiaries since they are best able to make choices on their own behalf. Recipients bear the primary risks of inappropriate training, employment, or job creation.

Third, since our experience with alternative uses of UI is so limited, the federal government ought to adopt an experimental approach and allow states maximum discretion in designing programs. We need a great deal more experimentation with and monitoring of investment options before they can be widely adopted.

Fourth, no experiment should be undertaken without undertaking an evaluation.

Fifth, alternative uses can, at best, be only a part of an effective developmental strategy. The effectiveness of unemployment compensation investment programs will depend on complementary investments, services, institutions and supports.

NEW CHOICES FOR THE INDIVIDUALS, STATES AND THE NATION

The touchstone of the exploration of alternative uses of unemployment compensation should be allowing the unemployed themselves additional choices in providing for their own economic welfare, and, to that end, allowing new choices to states as well.

For an unemployed steelworker who suspects his old job has permanently disappeared, the United States' unemployment system offers a peculiar choice: he can accept support (at an average of 40% of his former wages for up to half a year) while looking for the job that probably doesn't exist. Or he can enroll in a retraining program, move to another state, or try to create a job for himself—and most likely lose unemployment benefits.

While federal law provides that a UI recipient who enrolls in a state-approved training program (and the Job Training Partnership Act deemed all Title III-funded training programs for dislocated workers approved) can continue to receive benefits, only a minority of states have set up systems for informing recipients of this option or for approving programs. Many states still do not have worksharing programs, though federal law allows them to; in such states firms will have to concentrate layoffs on the few, rather than spread work reductions. And under current law, the minute a UI recipient tries to generate an income by offering a good or service, he/she loses unemployment benefits by no longer being ready, available and searching for work.

The bills under consideration today would expand these opportunities, either by allowing eligible recipients to pursue training, re-employment and self-employment options while continuing to receive benefits, or by actually enabling the recipient to draw on funds to support their re-employment efforts.

It is important to note that the thrust of the proposed legislation—especially H.R. 1947 and H.R. 1690—is not a "raid on the UI Trust Funds" but rather an allowance for individual recipients to use their funds in ways currently proscribed. It is impossible to know in advance how many people will opt for the various uses, or with what consequences for re-employment, income and costs to the system. Roughly two percent of the eligible European unemployed have chosen for the self-employment options. In a recent survey conducted by the Minnesota State Planning Office, 45% of UI recipients said they were interested in job training, 30% said they were interested in starting a business.

The bills also provide new choices for states. States levy the tax that funds the UI system and they administer it. When a deficit occurs, they bear the responsibility of paying back (with penalties) the federal government. But states are currently prohibited from experimenting with self-employment support programs which are one of the few means of reducing the rising structural unemployment that is the real source of strain in the system. Both the British and the French—who are in fiscal binds tighter than our own—now have evidence that in the long run their programs actually add revenues to the public treasury. H.R. 1690 would give states the choice of seeking solutions, rather than simply paying the bill for high unemployment.

Finally, the Self-Employment Opportunities Act offers a choice for Americans. As unemployment rates have increased, so have the number of people dependent on public support and the costs of public income maintenance programs. The public debate goes on between those who propose simply to futher curtail the programs, and those who see higher income maintenance benefits as an end in themselves. What these bills offer are ways of controlling costs by expanding opportunity; they seek to address the original goals of unemployment compensation—providing a measure of economic security to those who lose jobs through no fault of their own—by adjusting the means to address the demands of a new economy.

RECOMMENDATIONS

It is almost certainly the case that some uses of UI to encougage or support retraining, employment or self-employment may prove to cost more than they benefit. But in many cases, we will only know that if states are permitted to experiment with the options while the results are carefully monitored and evaluated.

H.R. 1947 mandates states to set up the mechanisms for approving training programs (which Congress has authorized and encouraged) so that recipients can continue receiving benefits. It requires DOL to carefully evaluate the impacts of the program so that national policy can be reformed appropriately based on state experience. We endorse its passage.

H.R. 1690 similarly authorizes a demonstration program carefully limited in extent (no more than ten states, no more than five percent of eligible recipients) and time (three years) so that even a worst case scenario would pose no threat to the system. Like H.R. 1947, it also mandates a thorough evaluation so that clear knowledge of the costs, benefits, and relative effectiveness of various program designs can result. We enthusiastically endorse its passage.

H.R. 758 is more ambitious in that it mandates new uses without proposing demonstration limitations or mandating evaluation. Since a short-time/worksharing compensation demonstration has already occurred, and evaluation results should be available, the time is ripe for a permanent decision on this program. The other provisions of the bill, while worth trying, are probably better pursued as limited demonstrations with accompanying monitoring and evaluations so that any permanent changes are informed by experience.

A NOTE ON THE PURPOSE OF UNEMPLOYMENT COMPENSATION

Some critics object that the use of unemployment compensation for other than current application goes beyond the legitimate purpose of the system. Neither the language of the act, its legislative history, nor its historic function support such a position.

Such uses are not in contravention of the most often asserted objectives of the system. Those objectives have traditionally been though to be to

> Provide partial compensation for wage loss as a matter of right . . . to maintain purchasing power and to stabilize the economy . . . to prevent the dispersal of the employer's trained workforce, the sacrifice of skills, and the breakdown of labor standards during temporary unemployment. (U.S. Dept. of Labor, 1955.)

The U.S. Supreme Court has interpreted the system as having similar objectives. California Dept. of Human Resource Development Java, 91 S. Ct. 1347, 1353 (1971). It should be noted that while the thrust of the system was "alleviative"—to help the temporarily unemployed person meet his/her non-deferrable expenses there have always been preventive and curative aspects of the system which sought to stabilize the economy (by maintaining purchasing power) and enhance reemployment (by requiring jobs search and setting up the employment service) respectively. (Haber and Murray, 1966, pp. 26-27). Thus there should be nothing inconsistent in extending the preventive and curative aspects of the system.

In a larger sense, it would be a mistake to ascribe too definitive a purpose to the UI system. After all, the statement of purpose customary in most legislation is conspicuously absent from the authorizing legislation. As Edwin Witte, one of the architects of the U.S. UI System and the administrator of one of the state systems upon which it was based, commented:

> Even more than most legally created institutions, unemployment compensation as it now exists in the United States is more an historical product rather than a logical conception. The enactment of the original laws was the result of many compromises . . . there never has been agreement as to the purpose of unemployment compensation or its basic principles. Differences of opinion among the champions of the institution are so extreme as to disrupt lifelong friendships. Unemployment compensation differs so much from state to state that there is a large element of truth in the claim that there is no such thing as an American Unemployment compensation system. (Witte, 1945, p. 21).

The Senate Committee's comment on reporting the proposed UI legislation was probably the most candid about the ultimate purpose of the legislation:

> This bill does not set up a federal unemployment compensation system. What it seeks to do is merely to make it possible for the states to establish unemployment compensation systems and to stimulate them to do so. (Senate Committee, 1934, pp. 12-13).

Experimentation with transfer payment investment techniques, including the worksharing and training initiatives of the last few years, are not only consistent with, but in consonance with this conception of purpose. Again Witte:

> Under the new conditions we now face, there is danger in looking backward rather than forward. Nothing is to be gained by name calling or the rehashing of issues which have little present significance; for, while unemployment compensation has had an interesting history in this country and one which records real progress after difficult beginnings, it is not an institution which has attained final form (Witte, 1945, p. 52).

Chairman FORD. Thank you. At this time, the National Governors' Association, the Committee on Human Resources, with Alicia Smith.

STATEMENT OF ALICIA SMITH, STAFF DIRECTOR, COMMITTEE ON HUMAN RESOURCES, NATIONAL GOVERNORS' ASSOCIATION

Ms. SMITH. Thank you, Mr. Chairman.

Knowing that my full statement is a part of the record, I will be brief.

Chairman **Ford**. It will be made a part of the record.

Ms. **Smith**. I would like to say, on behalf of the Governors, that I think the most important point, from their perspective is to remember that the unemployment insurance trust fund has been considered historically, and is still considered by the Governors, a firstline defense against the ravages of unemployment.

It has been considered by the Governors as part of the social safety net, but it was designed 50 years ago to do one very basic thing and that is to assist workers during a period of unemployment, when they went from one reasonably available job to another. And the physical integrity of that system is an important part of maintaining the ability of the system to continue to do that.

And even though unemployment has eased in the last several years, the Governors remember the recession of 1981. They remember it painfully and they remember it as a time when many States went into a great deal of debt in order to restore or be able to pay unemployment compensation out of those trust funds, and they know that that crisis could possible return.

Unemployment insurance, as it is currently designed, is meant to be an actuarial system in which moneys are put into it during good times, to be paid out during bad times. And as I said, the Governors have a memory of those bad times.

There are some trends that I think it is important to take a look at. One is that recession seems to be more frequent and to be more severe over the past several years. And that each recession seems to produce a higher rate of unemployment and less ability of the system to fully reabsorb those workers back into the work force at the end of the recession.

It is also important to remember that the nature of unemployment is changing. You have heard this afternoon several times that there is a difference between short-term unemployment and structural, long-term unemployment.

It is also important to remember that while the rate of unemployment is decreasing right now, there are more people who have been unemployed longer than there have been in the past. There are shifts, obviously, in our technological and economic base, and all of these trends raise what we consider to be a fundamental question that you must ask yourself, and that is: Is the unemployment insurance trust fund system, as we know it today, the appropriate place to address long-term structural unemployment, or are other strategies needed to do that?

The States, as several people on this panel and earlier today have pointed out, have been the basis or the ground for a number of experiments and innovations in attempting to deal with structural long-term unemployment. Eleven states have enacted work-sharing short-term compensation programs. You've heard this afternoon both about the California project, which created basically a State tax fund being administered by a panel comprised of labor and business leaders, with those funds spent to retrain unemployment trust fund recipients, UI exhaustees, and people likely to be laid off and claiming unemployment; the program in Delaware, which once again is a State fund created—25 percent of the fund goes to the Delaware Development Office for industrial skills training and 75 percent is distributed through the private industry councils to provide services to dislocated workers, including remedial education retraining.

New York also has a program where they use interest and penalties from their fund to support training and related programs, such as apprenticeships, affirmative actions, displaced homemakers and adolescent training programs.

But the important point, I think, to remember here is that none of these innovations go into the principal of that trust fund. All of the States who have experimented have looked for other ways to finance these innovative programs, recognizing that something has to be done, but also recognizing the concern that the unemployment insurance trust fund was designed to do something very different than some of the problems that we're being presented with today. They don't cut into the fiscal integrity of the fund itself.

So I guess the fundamental question is: Should unemployment insurance be seen exclusively as an income maintenance program, or should it become some kind of expanded program?

The needs of dislocated workers today vary a great deal from health coverage, pension benefits, relocation, retraining, and the question once again is, Is UI the place to do the kinds of things that need to be done to provide services to dislocated workers? I think it's a question of what is it that we want this program to do, and who is going to foot the cost of doing what we want the program to do. How much will it cost, and who's going to pay that bill?

Apart from consideration of these kinds of issues, the Governors are in no position to approve alternate uses of the unemployment insurance trust fund. However, Mr. Chairman, the Governors are interested in the whole notion of human reinvestment and in jobs. They would suggest that they will support any system which is tailored to facilitate participation of the clientele in the labor market.

We appreciate your exploration of this issue and want you to know that you may continue to expect support from the Governors as we wrestle with these very thorny problems.

Thank you.

[The prepared statement follows:]

National Governors' Association

Lamar Alexander
Governor of Tennessee
Chairman

Raymond C. Scheppach
Executive Director

STATEMENT OF

ALICIA SMITH
STAFF DIRECTOR
COMMITTEE ON HUMAN RESOURCES
NATIONAL GOVERNORS' ASSOCIATION

before the

SUBCOMMITTEE ON PUBLIC ASSISTANCE AND UNEMPLOYMENT COMPENSATION
COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES

on

ALTERNATIVE USES OF UNEMPLOYMENT COMPENSATION TRUST FUNDS TO ASSIST DISLOCATED WORKERS

March 18, 1986

HALL OF THE STATES · 444 North Capitol Street · Washington, D.C. 20001-1572 · (202) 624-5300

Good morning. My name is Alicia Smith. I am Staff Director of the National Governors' Association's Committee on Human Resources. I am pleased to have this opportunity to share with the Subcommittee this afternoon our thoughts concerning alternative uses of unemployment compensation trust funds to assist dislocated workers.

The Governors believe the unemployment insurance system is this nation's first line of defense against the ravages of unemployment and view unemployment compensation as an integral part of the social safety net afforded our jobless workers. Between the third quarter of 1981 and the fourth quarter of 1982, unemployment averaged 9.7 percent. During this recession, 19.4 million unemployed received benefits under the federal/state unemployment insurance programs at a cost of $32.1 billion. While average unemployment decreased in fiscal year 1985 to 7.2 percent, still almost $16 billion was paid out to over 8 million jobless workers. We believe that it is critical to preserve this vital program.

While the encouraging news about declines in unemployment have eased the immediate crisis, it should not encourage public policy makers to assume the unqualified health of our nation's unemployment insurance system or to assume that the financial integrity of the system is no longer at risk. The Governors continue to have serious concerns about the fiscal capacity of the unemployment insurance system and its ability to endure subsequent periods of economic downturn. Their concerns are supported by evidence of the system's performance during the recent recession and several emerging trends related to the nature of unemployment that indicate demands on the system will continue.

Recent History

As a result of the most recent recession, states experienced an unanticipated and massive increase in the volume and duration of claims activity. This caused considerable pressure on state unemployment insurance trust fund reserves and yielded staggering deficits in many states. As of January 31, 1984, 26 states had outstanding loans totalling $13.76 billion, exclusive of interest owed on a significant proportion of that debt. The shadow of this debt will follow some states through this decade, raising questions as to the fiscal capacity of the system to meet future demands.

State UI trust funds currently are benefiting from the economic recovery; because employment is increasing, employers are paying UI taxes on more employees and because unemployment is declining, fewer individuals are collecting unemployment compensation. So, too, is it important to realize that many states have taken extraordinary actions to tighten their benefit coverage and increase their tax efforts to improve the financial status of their UI programs. These reforms have been made with great sacrifice by employers and claimants and, to the extent that they further tax declining industries, at great risk by the states in terms of economic recovery and future economic growth. Evidence of improvement is reflected in the fact that as of December 31, 1985, outstanding loans stood at $6.13 billion, due to significant repayments by the states. Keep in mind, however, that unemployment typically lags behind other indicators of economic recovery and that any recovery masks significant regional differences in the employment picture. Many states and substate areas continue to experience historically unprecedented unemployment levels.

While the overall state trust fund picture is looking far better and states are to be commended for working diligently to bring their systems into balance, there is nothing to preclude the so-called "UI crisis" from recurring. Unemployment compensation is an actuarial system premised on the concept that tax receipts will be built up in good times in sufficient amounts to cover benefit outlays in bad times. The three recessions of the past eight years came too close together for even this basic financing assumption of the UI system to play out appropriately. When our nation experiences another economic downturn, and absent changes in the financing of UI benefits, the states, again, will most likely face deficits in their trust funds. At the very least, state trust funds will require a significant period of recovery to restore the reserves needed to maintain benefits during future periods of high unemployment.

Emerging Trends

As compelling as the argument is that the financial integrity of the unemployment insurance system continues to be at risk, it is made even more so by several emerging trends, specifically:

- periods of recession appear to be more frequent and more severe, thereby increasing the demands upon the unemployment insurance system; and

- the nature of unemployment appears to be changing as we experience increased structural unemployment which is not easily addressed within a system designed to ease transition between reasonably available jobs.

The Governors' concerns about the fiscal capacity of the unemployment insurance system and its ability to endure subsequent periods of economic downturn while simultaneously providing needed assistance, are supported and heightened by recent research which reveals some disturbing trends in the unemployment picture. Such trends have serious implications for the unemployment insurance system and our nation's employment and training and income security policies. In an essay on labor market policy and structure adjustment, prepared for the Joint Economic Committee, Michael Podgursky of the University of Massachusetts notes that "each recession during the 1970s to the present has brought higher average rates of unemployment than the preceding recession" and that "each recovery has failed to fully absorb the rising pool of unemployment."

Further, analyses by the Center on Budget and Policy Priorities reveal that while the unemployment rate is the lowest since April 1980, there continue to be large numbers of long-term unemployed (persons out of work more than 6 months and still looking for a job). The number of discouraged workers has increased substantially as well. So, too, are the spells of unemployment longer than in the past.

These apparent trends and disconcerting statistics raise several important policy questions of which not the least important is whether the unemployment insurance system is the appropriate system to address long-term structural unemployment or are other intervention strategies needed?

In this last regard, the Governors have additional concerns. There is an emerging recognition that this nation is confronting significant shifts in its technology and economic base. These shifts portend many changes in the skill requirements needed by our workforce and it may be that significant numbers of workers will be displaced from their jobs. Such dislocation has potentially serious financial implications for our nation's unemployment insurance system. It seems reasonable, therefore, that our national employment security policy include a response to these changes.

The Job Training Partnership Act (JTPA) of 1982 must be applauded for its recognition of the problems of the dislocated worker and their need for retraining. In addition, this legislation recognized the critical link between this group of workers and the unemployment insurance system by tying the state match required for the program to UI benefits paid. It also mandated that Title III participants continue to be eligible for unemployment compensation while enrolled in a training program. This represents a good beginning. The Governors, however, feel obliged to take this opportunity to point out an implicit inconsistency in national policy as regards the linkage between our employment and training and unemployment insurance programs. On the one hand, under the JTPA Title III provision, states are given the message that the use of the UI benefit payment as income support during training is acceptable and, in fact, laudable. On the other hand, general state efforts to effect the integration of training and unemployment insurance is all but prohibited for fear of failing to meet the solvency efforts legislated under the Social Security Act Amendments of 1983. This same fear causes states to pursue rather cautiously, or simply forego, other labor market adjustment programs, such as worksharing. Therefore, we are most appreciative that the linkage between training and unemployment insurance is a concern being addressed here today by this Subcommittee.

State Activities

Federal policy makers are not alone in their efforts to explore alternative uses for unemployment compensation to assist in worker adjustment or facilitate labor market participation. A number of states have already started down this path lending credence to the notion of states as laboratories of experimentation. To date, 11 states have enacted worksharing/short time compensation programs to assist in worker adjustment. Many other states have expressed an interest in pursuing similar legislation.

Of particular note, are programs in two states, California and Delaware, which access the unemployment insurance system's revenue collection capability to afford training opportunities. Let me briefly describe these programs.

The California Employment Training Panel is funded by diverting monies that otherwise would have been channeled into the Unemployment Insurance Trust Fund. Since Federal law prohibits the direct use of unemployment insurance funds for training, the legislature reduced the UI tax by one tenth of one percent of taxable wages for positive reserve employers and imposed a new state tax in the same amount on the same employers. The fund is administered by a panel comprised of representatives of business and labor. Funds must be spent to retrain UI recipients, UI exhaustees and people who are likely to be laid off and claiming unemployment compensation. The adequacy of the training and standards for completion are carefully monitored as is the type of job for which the training is being offered. Trainers are paid only if the trainees go to work.

The perceived need for a permanent funding source for training and the desire to take action to prevent unemployment rather than dealing with it after the fact, led to the creation of Delaware's Blue Collar Jobs Act. Under the Act a tax of one tenth of one percent is assessed on the state's employers. Twenty-five percent of the proceeds is allocated to the Delaware Development Office to be distributed for industrial skill training. The Delaware Private Industry Council distributes the remaining 75% to provide services to dislocated workers, to assist in school-to-work transition activities, and to underwrite innovative training programs. A contributing factor to passage of the legislation was that the state's improved fiscal position resulted in the full repayment of its federal loan. This relieved Delaware employers of the federally-imposed .6% penalty tax assessed on Federal Unemployment Tax Act (FUTA) taxes paid. The approach provides Delaware with permanent funding for training and spreads the costs among employers, who would shoulder the burden of increasing unemployment if retraining were not addressed.

Other states, too, are exploring creative ways to link the unemployment insurance and training systems. New York, for example, is using interest and penalty funds to support training and related programs. Apprenticeship, affirmative action, displaced homemaker, and adolescent vocational educational and summer employment programs have been targeted for additional funding.

In what we view as a promising development and reaffirmation of a classic federal responsibility, the Department of Labor is financing a Reemployment Demonstration Project in the State of New Jersey. The goal of the 18-month project is to determine whether UI beneficiaries who are likely to exhaust their benefits before finding new work can, by use of additional services, be returned to work earlier, or receive higher wages after obtaining new work. These services will include: intensive job search assistance, retraining and/or relocation assistance, and wage subsidies. It is hoped that evaluation of project results will help to determine whether federal and state programs should provide additional reemployment assistance to UI beneficiaries early in spells of unemployment, using UI trust funds or other funding sources.

Outstanding Questions

Unemployment compensation, except for a brief period of aberration in the mid-seventies, has been viewed as short term income support available to persons experiencing involuntary, but temporary loss of work. The purpose of the program was not only to contain, if possible, the potential "snowballing" effect of unemployment within a community, but to maintain within that same community the labor force on which that community's business and industry would depend as recovery once again took hold. The situation facing dislocated workers is not the kind of situation for which the UI program, as we know it, was designed. Increasingly, the unemployment encountered by these workers is not short term; companies for whom the UI program was meant to preserve an intact workforce may no longer exist. That being the case, more and more questions are being raised as to the ability of the UI program to assist the dislocated worker. The basic policy question is whether in this situation, the UI program ought to be seen exclusively as an "income maintenance program" or whether, for these workers, we need to be using the UI program as a much broader instrument of economic and labor market readjustment. The models I have just described in California and Delaware, where the UI mechanism is used to generate funds for job training, suggest that some states are willing to consider the latter.

Dislocated workers vary in their needs. For some, standard UI coverage in conjunction with already available labor exchange services, such as job search or relocation assistance, is adequate. There are others, particularly older workers, whose needs go far beyond a question of income. It is established, for example, that health costs and coverage is a major concern of older dislocated workers. So, too, is protection of pension benefits. Some individuals will not or cannot relocate in pursuit of new job opportunities. Not all individuals are able to apply skills acquired over a lifetime of work to command in the same community other jobs; training or retraining may be necessary. In some communities, illiteracy may prevent individuals from successfully competing for new jobs. But even among those persons who can find new jobs after retraining or participation in job search, some will never be able to again earn the level of income to which they are accustomed. What is suggested is not only that services may have to be tailored made to the kind of dislocated worker present in a given community, but that labor exchange, training, and income maintenance services must somehow be combined to address the dislocated worker's needs. Part of that need may be job creation. But again, the question for this discussion is whether UI should be used to more directly facilitate this kind of approach. Should unemployment compensation trust funds be used to finance training or retraining, pay for intensive job search assistance or basic education, or underwrite relocation assistance or job creation? The moral imperative may reduce to a question of existential capacity. This threshold question must be answered before the kind of specific proposals you have before you in the three bills offering system adjustment can be considered.

I have already noted the continued vulnerability of some state UI trust funds and trends that will continue to exact pressures on those trust funds. Given that situation, proposed new uses of UI compensation that add costs, but do not generate income to the program are unrealistic. There is also a question about who should pay. Should applications that accrue only to the future benefit of the employee be borne by the employer, or is it appropriate that the employee bear a share of that cost through an employee contribution? Alternatively, is the benefit of such applications sufficiently "in the public good" to argue for support from general revenues? The answers to these questions cannot be settled here today, nor have the Governors reached any consensus on this issue. For the time being, however, it may be sufficient, to note that how the UI question is answered inevitably comes back to a question of what the program is meant to do, what it will cost, and who will pay. We would encourage this Subcommittee to initiate that discussion and would suggest that apart from consideration of those broader issues, we are in no position to approve alternative uses for unemployment compensation trust funds, particularly approaches that may compromise the fiscal integrity of the unemployment insurance system.

There is no question that this nation must continue to consider the question of "human reinvestment." Our various support systems must be structured to facilitate participation of their respective clienteles in the labor market. Your exploration of this important issue, Mr. Chairman, in the context of welfare and unemployment insurance is greatly appreciated. In this regard, you may continue to expect support in your endeavors from the nation's Governors.

Chairman **Ford**. Thank you, Ms. Smith.

Mr. Sanders.

STATEMENT OF MARK SANDERS, PRESIDENT, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, AND DEPUTY DIRECTOR, CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT

Mr. **Sanders**. Thank you, Mr. Chairman. I, too, have a prepared statement which I would appreciate having made a part of the record.

Chairman **Ford**. The full text will be made a part of the record.

Mr. **Sanders**. Thank you.

I'm deputy director of the California Employment Development Department and the president of the Interstate Conference of Employment Security Agencies. I am testifying in both capacities. California has been mentioned several times today; I'd be pleased to answer specific questions about our programs.

I would like to say at the outset that the Interstate Conference shares the reservations about H.R. 758, H.R. 1690, and H.R. 1947 that were expressed by the Department of Labor, the AFL–CIO, the chamber of commerce, the National Association of Manufacturers, and the National Governors' Association.

We also share the concerns about maintaining the integrity and the solvency of the UI trust fund and preserving the UI system's primary function of providing short-term financial support during periods of unemployment.

At the same time, we recognize that there is a need to review and discuss other ways the program may be used. California has done some innovative things, and I would mention that they have been done in California within the context of current Federal law and current flexibility. It is not necessary to always impose programs from the top down when flexibility is presently available. That's one of ICESA's concerns and certainly a State of California concern.

Second, if you adopt any of these proposals we encourge you to do so on a limited and trial basis. Mr. Friedman has suggested that H.R. 1690 be tested before it's adopted because we do need to look at the financial burdens which are imposed.

In California, we have a law which requires that the State pick up the tab when we impose costs on local government. That does deter passing some laws, and I think that's the principle that comes into play throughout.

We have had in California since 1960 a retraining benefits program for unemployment insurance recipients. In 1980, we added an additional 26 weeks of benefits for those in training, specifically, for displaced workers. Subsequent to that, in 1983, we increased that to 52 weeks of additional benefits, on top of unemployment insurance, if a person indicates they're interested and we find them eligible and they're in an approved training program by the 16th week of their unemployment. So there is, in essence, 78 weeks of training available with unemployment insurance benefits, 26 weeks of which are paid by the UI trust fund and 52 out of the State general fund.

In addition, we heard Alicia mention the employment training panel. We added a one-tenth of 1 percent payroll tax, capped at $55 million a year for training programs; funds in excess of that $55 million per year go into the UI fund. So that has been a nice source of funds for training UI recipients or potential recipients.

I have some data, I'd like to give you concerning participation in training by UI recipients in California:

From January of 1981 through June 1985 there have been only 9,000 participants in California, and we only spent $7.6 million. We notify, by law, everyone who files a claim in California that this is an option available to them; if they want to take an extra 52 weeks of benefits while they're in a training program, they can have it. Not quite as liberal as H.R. 1947 would make it—anyone who wants it gets it—but it's pretty liberal. So these data indicate that there is less interest in training than perhaps we think there is, by a certain segment of the people who are unemployed.

I don't know how beneficial it is to mandate that people go into training. If they're not interested, they don't learn. They just clutter up the classroom. Definitely this is an issue as you discuss comprehensive reform. I think you need to look at what the school systems do, what's available through the community colleges, and what is done and what is not being done to modify some of those offerings to meet the needs of the current labor force and the current labor market.

With that, I'll close, and if there are any questions, I'll be pleased to answer them. I appreciate the opportunity to be here, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF MARK SANDERS, PRESIDENT, INTERSTATE CONFERENCE OF EMPLOYMENT SECURITY AGENCIES, INC., AND DEPUTY DIRECTOR, CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT

Mr. Chairman, members of the Subcommittee, my name is Mark Sanders. I am Deputy Director of the California Employment Development Department and President of the Interstate Conference of Employment Security Agencies, Inc. (ICESA). ICESA is the organization representing state administrators of unemployment compensation laws and public employment offices throughout the country. ICESA appreciates the opportunity to comment on proposals to assist dislocated workers through the federal-state unemployment compensation system.

As you all know, the American economy and labor force are changing. The manufacturing sector is losing jobs; the service sector is gaining them. Studies tell us that some workers who are displaced from manufacturing jobs, generally those who are younger and are skilled, move quickly into service sector jobs. Others, generally those who are older and less skilled, have a great deal of difficulty returning to work.

As we began to see more workers with long-term participation in the labor force losing jobs permanently, the question was asked: why can't something be done to help these workers return to work rather than just paying benefits? It's a good question, but other questions follow. What kind of help do these workers need and is the UI system the right vehicle to provide this help?

We think the UI system has a role in assisting displaced workers; however, that role is not the system's primary function.

It's primary role is still providing temporary income for the short-term unemployed. By far, most UI recipients are in this category. In July 1985, the Bureau of Labor Statistics published a study of workers who were displaced during calendar years 1979 through 1983. They found that 3.5 million displaced workers received unemployment benefits during this period. The system served a total of 47.5 million beneficiaries during these five years. Therefore, the proportion of displaced workers going through the system was about 7.4 percent during this period. This is not to say that the UI system should not incorporate new features into its basic structure to assist displaced workers; but to point out that the overwhelming majority of UI recipients are not displaced workers.

Over the past few years, ICESA has provided a forum for discussion of various proposals for alternatives to the traditional payment of cash benefits to unemployed workers on a weekly basis. The authors and supporters of proposals have been given an opportunity to explain them and representatives of business and labor have been invited to comment. At this point we are still listening. A few states are interested in experimenting with some alternatives; others are still skeptical of the benefits and propriety of alternatives.

The degree to which the UI system should be involved in programs to assist dislocated workers is open to debate. A number of states (South Carolina, New Jersey, Virginia, to name a few) have set up plant closing response teams that involve UI along with JTPA and employment service staff to provide coordinated services to displaced workers. States that have implemented these efforts have found that a key to success in serving dislocated workers is early intervention -- identifying the displaced worker, providing him/her with information about the labor market and the kind of services available (e.g., skill assessment, counseling, training). The involvement of the UI system in this kind of effort follows the traditional role of the system to provide income maintenance while the worker looks for work or goes into training. Any worker who is in JTPA Title III training and qualifies for UI continues to receive benefits while in training.

In a few states, the UI system is more deeply involved. Massachusetts provides special services, funded by state general revenues, to workers who lose their jobs due to plant closings and offers extra weeks of benefits for those who enter training. In California, a separate payroll tax is collected along with the state UI tax to pay for training workers with obsolete skills. In Delaware, a special payroll tax funds counseling, training and placement for dislocated workers. In 11 states, short-time compensation/worksharing is being used to reduce the number of workers who are laid off. All of these have been structured within the current federal legislative framework for unemployment insurance.

In considering changes to the UI program to assist displaced workers, the first questions that should be asked are: what do displaced workers need and how can the UI system help? Not, how can the UI system be changed to serve displaced workers? Because budgets are limited, some have seen the UI system as a source of funding for programs or services that can not be financed from other sources. This approach has the potential for harming the UI system's ability to serve its primary function of income maintenance.

Although the system is in far better financial shape than it has been for years, 13 states still owe about $6 billion in loans. Other states that have repaid loans have not yet accumulated reserves that would finance benefits through even a mild recession. Consideration of changes to the system should include an evaluation of the costs involved and the impact on trust funds.

It makes sense to us to test proposals for alternative uses of UI on a limited basis before making changes to federal law that encourage states to adopt them. We are very interested in the Department of Labor's demonstration project which is just getting underway in New Jersey. That project is designed to test several alternative uses of UI including wage subsidies and cash bonuses for quick reemployment. Training, relocation and job search assistance will also be offered. The Department of Labor's budget request for FY 1987 includes funds for similar demonstration projects in two additional states. We are pleased that the Administration has taken the initiative to test these proposals. The results of these projects should yield valuable information about what works and what doesn't.

An issue that must be addressed in connection with assistance to displaced workers is who should pay. Should it be employers, employers and workers jointly, or society in general who finances these services? Financing of unemployment insurance benefits is based on individual employer responsibility for former workers. Should this philosophy include training and other assistance in addition to income maintenance? Such an expansion would require far higher taxes than currently exist.

H.R. 1947 is intended to expand the types of training that are approved by states and the number of individuals who enter training while collecting UI benefits. States would be required to approve training for anyone whose prospects for employment would be improved by training. It also would require an evaluation of implementation of the provisions and permit states to credit all benefits paid to individuals participating in training against any interest owed on federal loans.

Before taking a step that would require states to approve training without regard to an individual's skills or prospects for reemployment without training, the problem that this bill intends to solve should be more clearly defined. Are there, in fact, a substantial number of UI recipients who need and want training, who are in a position to obtain it through government programs or self financing and who are denied the opportunity to do so? There is a perception that the UI system is a roadblock to training that has not been documented and we do not believe exists.

The Office of Technology Assessment has published an excellent report, Technology and Structural Unemployment: Reemploying Displaced Adults. (February 1986). That report tells us that education or training is the best route back to a good job for many displaced workers; however, the majority are much more interested in returning to work than in entering training or education. It also tells us that in the best-run JTPA Title III programs where training and education are strongly encouraged, only about 20 to 35 percent of workers are likely to choose and benefit from vocational skills training. The report adds that basic UI benefits is the main source of income for most workers in training, however, the 26 week maximum duration of benefits limits the types of training that are feasible.

This information supports early intervention as the key to success with displaced workers. Those that need training should be encouraged to begin early while the maximum amount of UI benefits are still available. Any UI recipient who enters training provided by a JTPA Title III program may continue to receive benefits. Those that enter other types of training may also be approved under the state law.

H.R. 758 encourages states to: permit workers participating in short-time compensation programs to also participate in training; pay UI benefits to workers who quit their jobs to enter training; pay additional benefits to workers who enter training; and "cash out" UI benefits for workers who take jobs at lower wages.

It appears to us that states are able, under current law, to experiment with any of these proposals except the "cashing out" option. That proposal is one that is included in the New Jersey demonstration project.

There is currently no barrier to workers who receive short-time compensation that would prevent them from participating in training on the days that they do not work. However, there are few opportunities for training one or two days per week.

We are not sure that is would be in the best interest of either workers or employers to encourage employees to quit their jobs to enter training. Usually, remaining employed as long as possible makes sense for most people. States currently may consider voluntarily leaving employment to enter training to be good cause if state legislatures choose to do so.

Additional weeks of benefits for workers who are in training makes sense in many cases where training programs last longer than the usual 26 week maximum duration of UI benefits. The Trade Adjustment Assistance Program provides additional weeks for certified workers who enter training. Two states, Massachusetts and Michigan also have state provisions for up to 18 additional weeks of benefits for claimants in approved training. California also pays extra benefits under the state extended benefit program during periods of retraining. This is an option that other states might consider when loans are repaid and additional costs can be considered.

H.R. 1690 would permit 5 to 10 states to experiment with awarding self-employment allowances equal to the total amount an individual would be entitled to receive in unemployment benefits. The self-employment allowance would be paid from the UI trust fund. The individual would use the funds to set up his/her own business. This is an interesting idea that is reported to have had some success in Europe.

Various questions related to this proposal have been raised: is the average amount of UI entitlement (a little over $3,000) enough to set up a business? What about living expenses during the time the business is being established? Is it fair for a former employer to finance the establishment of a potential competitor?

In spite of the questions that have been raised, there is some interest in experimenting with this idea. Mr. Wyden's home state, Oregon, has told us that they would like to give it a try. We encourage the Department of Labor to include a self-employment option in one of the demonstration projects planned for FY 1987.

In summary, Mr. Chairman, I would like to say that the UI system is now involved in serving displaced workers. We believe that those services can be improved and expanded without doing harm to the basic function of the system -- providing temporary income for the short-term unemployed. However, if we are to protect this basic function, additional financial commitments must be evaluated very carefully. The best approach is to thoroughly test any alternative uses of UI and be sure that they make sense for workers and employers before any widespread implementation is encouraged.

Chairman **Ford**. Thank you, Mr. Sanders.

Mr. Sanders, in your latter comment, we are talking about people who have once been attached to the work force.

Mr. **Sanders**. Yes, sir.

Chairman **Ford**. We are talking about those who have been forced out and in most cases through no fault of their own, and maybe they have not discovered within their own minds that they need to be retrained or plan for a new career.

I'm pleased to hear that California would have 52 additional weeks, over and above the 26 weeks of unemployment benefits.

Let me ask you, Mr. Sanders, do you see—or let me say to Ms. Smith and ask Ms. Smith with the Governors' Association—what kind of administrative problems do you envision that would arise if we were to allow alternative use of the UI fund?

Mr. **Sanders**. We both can answer this.

Chairman **Ford**. Well, I'm saying—yes, either.

Mr. **Sanders**. OK. You start, and then I'll pick up.

Ms. **Smith**. OK. I'm not sure what the answer is. I think that at any time, depending obviously on what alternative uses you decided to implement, Mr. Chairman. At any time that you start mixing a number of outcomes in one program, you tend to complicate the administration of that program. The more things you're trying to do in a given program, the more difficulty you have in administering it. I suppose it would depend upon the structure of the program, whether there were going to be separate lines for those people we called—you know, at what point do we call them dislocated workers, and do we treat them separately within the system from those people who are basically moving in and out of the system.

I think those are some of the kinds of issues that have to be dealt with before you decide what administrative problems there are. But as a general principle, the more things you try to do in a single program, the more administrative problems you have.

Mr. **Sanders**. Specifically on 1690, it could be as complicated as anyone would like it to be or very simple. It would be simple if the law or the pilot were to say, "Anyone who wants to become self-employed in some kind of identified entrepreneurship"—and I don't know who would be the one that would make that judgment—"collects unemployment insurance." We don't have to ask them if they're looking for work. We don't have to ask them if they're available; we don't have to ask them if they're out hustling in their business every day. We just pay them. Now that's pretty simple to do. We could do that with no trouble, you know, and that's like the buyout. That's accomplished fairly simply—someone comes in, says, "I'm going into business," here's your $3,000. See you again. You know, that can be simple.

It can be very complicated. For example, if we pay unemployment insurance to people who are encouraged to quit their jobs. Part of the problem of getting employers to identify when they're going to close a plant is they tend to lose their work force before they finish up contracts they're presently working on or things that need to be completed just to have an orderly shutdown. California contemplated requiring 12 months notice and tried to provide some incentives, and I believe we have something on the books now. If we pay benefits to people who quit their jobs because they want to go to training, I think we would probably have a lot of people who don't like their jobs who'd go to training.

I believe in the value of training for training's sake. I believe in the University of California motto: "Lifelong Learning." But I think we've got to better define what we want out of these programs in order to really determine what the administrative barriers are.

If you don't mind me rambling a little bit, you asked about identifying who is a displaced worker earlier and what can we do. We have a system to identify, and we maintain some confidentiality, plants that are going to be closing. We work with organized labor very closely in this matter, and we try to do as well as we can to intervene with the employer to prepare that employer's work force for what they're going to have to face.

From personal experience, when the General Motors plant closed in Freemont, CA, and the Ford Motor plant closed in Milipitas about 30 miles apart, there was a difference of 30 miles geographically, but about 100 years in the way the two things were handled.

GM, because of the uncertain nature of negotiations with the Japanese concerning a new plant, using a smaller and different labor force, were very equivocal with their employees. The GM workers generally—even though we had probably as much community support as you're ever going to find anywhere—were not receptive to training, or taking other jobs. Now there's a big wage stepdown, which is a tough thing to accommodate anyway. But they were very reluctant to get into it.

Meanwhile, Ford came in and hand in hand with the UAW, which was hand in hand with GM, said, "We're closing this plant. This is it," a fixed date, no messing around, and "If you want to do something, here we've got the employment development department, we've got the other State agencies, and we've got the community support, we'll help you find another job or retrain."

The Ford workers tended to retrain or accept other employment, very much a contrast with GM workers. We still have GM people who are unhappy, unemployed, and will be long-term welfare recipients. Meanwhile, we don't have this situation to the same extent among former Ford workers, even though the labor market was not that much different, and the wages available were very similar. So a lot of it has to do with the way the employer handles it, as well as labor handles it. We must convey the message, "Your job is gone."

Chairman **Ford**. Thank you.

Mr. Friedman, you mentioned—we talked about or Ms. Smith, I guess, talked about being a dislocated worker from AT&T, and we're talking about the average maximum amount would be around $3,000, $3,200.

What kind of business could someone establish. I heard Ms. Smith; she's been talking about it. But what kind of business could someone establish for the $3,000, $3,200 maximum benefit?

Mr. **Friedman**. Well, the short answer is, it will tend to be a service business, but it is not necessarily limited to that. The National Federation of Independent Business did a survey of new business startups and found that 20 percent of all new business startups were financed with under $5,000 in startup capital. The average lump sum in the French case was roughly $2,460, and 175,000 people have taken advantage of that scheme.

It is possible. It's not enough money for many businesses. It's enough for some.

Chairman FORD. Well, why should employers have to pay the startup costs for someone else's business?

Mr. FRIEDMAN. I think there are three issues there. First of all, in a lot of the communities that we're talking about, the problem is not too much competition, but too little. You're talking about communities that have lost their job base through plant closings. They need to regenerate some source of new jobs, some new employers.

For example, the two communities in Tennessee where we've been working, we were actually hired by a large employer who closed a plant. Several plants had closed before; several would close afterward. They found 6 months down the road, 85 percent of their employees were still unemployed, and that's after having, really what, I think, has to be regarded as model retraining, counseling, placement, severance pay programs.

So, I think, in a lot of communities which are probably identifiable, the problem is restarting the economy, and you will even find some employers willing to contribute to that.

The second issue there is who really pays the unemployment tax and for whose benefit was it intended. Most economists will suggest that although we levy the tax as a tax on employers, in fact, it comes in lower wages to employees.

Clearly the employer community gets some benefit from having the unemployment compensation system. That benefit comes in the form of greater stability in the economy, maintenance of purchasing power in a recession, greater morale on the part of employees. But the primary beneficiaries of that system, I would submit, have always been seen as the unemployed. It was the main concern of the system to help tide people over, and so what we are really talking about is offering some other options to that same end. Third, the unfair competition argument is often raised, and, I think, there are cases where there might be unfair competition, but we are talking a relatively modest sum to which people are entitled, and which, I think, is very small compared with the advantage of already being in business and having a going venture.

Chairman FORD. OK. Ms. Smith talked about—I guess—let me ask this of Ms. Spruill. Have you found it difficult to convince jobless workers that they have to seek some type of retraining? You talked about your program, but have you found it necessary that you have to convince these dislocated workers?

Ms. SPRUILL. On the contrary, it's probably been the easiest part of the whole program. In the class we have six truckers. Some have been trucking for 29 years and 6 months and lost everything; pension and everything. They came to us with no alternative. Their destiny had to be controlled by them and not by big business.

Chairman FORD. Yet your program is a 13-week institute; right?

Ms. SPRUILL. Twelve weeks.

Chairman FORD. Twelve weeks. Why wouldn't the 26 weeks of unemployment compensation benefits cover the 12 weeks that we are talking about here?

Ms. **Spruill**. Why would it? Let me explain how our program works. In the 12 weeks of training, we train 3 days a week; Monday, Wednesday, and Friday in the afternoons. That time is spent in actually reviewing all the research they have done on their markets, helping them actually put together a written business plan.

At the end of that 12 weeks they have to then take full-time effort in launching their business. We have treated them during the training as if they were already in business, so that we can have them go out and experience the pitfalls, if they are going to have them, and we can talk about them in class, share their problems with the other participants.

Right now we have 12 businesses that have launched. They have been out of class 2 weeks; 12 are officially launched and they are making money. We anticipate an additional 6 within the next 6 months, and one of those will be Ruth's getting off the ground as soon as we get her some money to get everything printed.

I just wanted to make a point. When I started my business, I was fortunate enough in having the drive and locating somebody that loaned me $1,000. With that $1,000, I opened up a checking account. I purchased letterhead, business cards, and had a phone installed in an office I was renting for $100 a month. I took that money and leveraged credit accounts with sawmills throughout the United States. I was a lumber wholesale person. Within 60 days I had a range of close to $60,000 in credit, plus my $1,000 that I had borrowed, and I was in business. In 6 months I paid that $1,000 back and, like I said previously, I realized at the end of my first 12 months in business a $25,000 salary as opposed to the $6,000 I was struggling on as a single parent.

It can be done with the right attitude. And all I can say is if I would have had the training that I now provide to dislocated workers in 1978, I would be making 20 times much more money than I am now, because I would have been a lot further ahead.

Chairman **Ford**. Thank you.

Mr. Frenzel.

Mr. **Frenzel**. Mr. Chairman, I have no questions. I want to thank the panel for their very interesting presentation.

Chairman **Ford**. The chairman too would like to thank the panel. I thank each of you individually for your testimony and your responses as well.

We thank you very much.

This will conclude the subcommittee's witness list on the unemployment compensation to assist dislocated workers. The subcommittee will take under review all of the testimony that has been given and shared with the committee today.

There is no announcement for any further action at this time on how the committee will respond to any of the bills that are before the committee, but there will be an announcement forthcoming in the near future to state whether there will be any markup sessions at all.

With that, if there are no further comments from you, Mr. Frenzel, the committee will stand adjourned.

[Whereupon, at 5:03 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

CHESTER G. ATKINS
5TH DISTRICT, MASSACHUSETTS

COMMITTEES
BUDGET
PUBLIC WORKS AND
TRANSPORTATION
EDUCATION AND LABOR

LINDA J. HARTKE
ADMINISTRATIVE ASSISTANT

Congreſs of the United States
House of Representatives
Washington, DC 20515

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March 18, 1986

The Honorable Harold E. Ford, Chairman
Subcommittee on Public Assistance and
Unemployment Compensation
B-317 Rayburn HOB
Washington, D.C., 20515

Dear Mr. Chairman:

Thank you for inviting me to participate in the subcommittee's hearing into proposals for reforming the current Unemployment Insurance system. This is an especially appropriate moment for such a hearing. Economic recovery has pushed aggregate unemployment rates back to their pre-1982 recession levels. With recovery, many states have rebuilt their U.I. trust fund balances and are reexamining their policies for dealing with labor market instability. Believing that the Federal Government has an interest in encouraging this re-evaluation, I am pleased to have this opportunity to submit my comments for your consideration.

Each economic recovery of the past fifteen years has produced successively higher levels of aggregate unemployment. The current recovery, with unemployment hovering at more than 7% after a two year expansion, is no exception.

What is exceptional about this recovery is the lack of promise it holds, even in faster growing regions, for agricultural, industrial and service sector workers displaced by changes in technology and world trade. Last year Massachusetts had a relatively low overall unemployment rate of 3.9 percent, with 300,000 workers seeking jobs. But even amidst this relative prosperity, fully 10% of the Commonwealth's workforce became eligible for --and collected-- U.I. benefits. And each week hundreds of skilled workers exhausted their U.I. eligibility without finding employment.

The time to devise effective policies for reintegrating these workers into the labor force is now, during the recovery, not after we have entered the next recession. Massachusetts already operates a number of programs specifically designed to address the mismatch between job skills and job opportunities, between areas of job growth and areas of concentrated unemployment. Last year the state dedicated $300 million for these employment and training programs.

As my state and others work to increase the flexible coordination of these programs, attention has naturally focused on the unemployment insurance system. To the extent that state employment services reduce the incidence and tenure of insured unemployment, savings are reflected in lower claims on the U.I. system.

States can be encouraged to intensify their employment service activities by linking these to the cost savings they produce in U.I. outlays. Currently, employment services are linked to U.I. only by administrative fiat. Most states require U.I. recipients to register with state employment agencies in order to qualify for benefits. Others, such as Massachusetts, have begun "marketing" many employment services specifically to U.I. recipients. But nowhere are these activities combined into a coordinated program effort.

One reason for the lack of program innovation is the difficulty of financing small scale U.I. demonstration projects and the necessarily modest returns that can be expected of these. States with well-funded U.I. accounts wishing to study the affect of integrating employment services with U.I. benefits must either add on special non-FUTA payroll taxes, increase state appropriations or undertake wholesale restructuring of their U.I system. That these requirements effectively discourage innovation is evident in the comparatively few U.I. demonstrations now being undertaken.

Thus despite the long term benefits that such demonstrations could produce, and despite the growing interest in U.I. reform, there is little incentive to pursue improvements.

I recently introduced legislation to promote state initiatives in employment programs serving U.I. recipients. This bill removes impediments to U.I. demonstration programs without threatening the basic security of any participating state's U.I. system. It will direct additional employment services to U.I. recipients without affecting the normal delivery of cash benefits. And it offers states an incentive to pursue cost saving program innovation without increasing federal outlays.

Under the terms of this legislation, qualified states could collect up to one quarter of the annual interest earnings of their U.I. trust fund accounts. This portion of their interest earnings, a small fraction of any state's total U.I. reserves, would finance temporary demonstration programs delivering a combination of employment related services to eligible U.I. recipients.

States participating in these demonstrations would submit yearly reports on program activities and their affect on total U.I. claims. Some demonstrations might focus on improving the joint administration of U.I benefits and employment services. Others might upgrade labor market planning techniques. Still others may focus on providing U.I. recipients with relocation allowances or targeted private sector retraining opportunities. The point is that states are quickly gaining considerable experience with the range of employment services called for by prevailing labor market conditions. We should now begin promoting demonstration programs that provide experience with the creative and aggressive delivery of these services to U.I. recipients.

Effective demonstrations would leverage increased state investment in employment related services. Program reports should show that under constant economic assumptions, actual U.I. outlays, including the costs of the demonstration, were held below projected outlays. In short, successful demonstrations would produce net program-savings.

Participation would not require states to restructure their basic U.I. system. Nor could undertaking a demonstration affect the security of any state's U.I. system. We can safeguard the normal delivery of U.I. cash benefits by requiring eligible states to certify to the Secretary of Labor that current U.I. account balances are adequate, after deducting the designated portion of interest income, to meet all projected U.I. claims. Continued eligibility for demonstration funds would depend on recertifying each year that existing U.I. balances remained "solvent".

This sort of eligibility criteria targets these demonstrations to states with stable U.I. accounts and growing economies. Those states wishing to take advantage of this opportunity, in other words, will be those with the best chances of showing positive results. Already several states are in position to undertake these demonstrations. We should encourage them to explore cost effective means of delivering U.I. benefits and employment services to recipients. Through limited demonstrations we can speed the return of our skilled workforce back to the workplace. And perhaps equally important, we can lay the groundwork for a careful review of programs addressing long term structural unemployment.

Representatives from the Commonwealth of Massachusetts have been invited to testify before the subcommittee this morning. They will address a wide range of U.I. reform proposals, including the benefits to be gained from undertaking limited U.I. demonstration projects. I am keenly interested in your thoughts on their presentation as well as on the best methods by which the we can encourage state initiated U.I. demonstrations.

Once again, thank you for the opportunity to participate in this hearing. I look forward to continuing these discussions as the subcommittee further reviews U.I. reform proposals.

With warm regard,

Sincerely,

Chester G. Atkins
Member of Congress

CGA:cru

I

99TH CONGRESS
2D SESSION

H. R. 4449

To direct the Secretary of Labor to establish and carry out a two-year demonstration project in which certain States may utilize a portion of their unemployment compensation accounts in the Federal Unemployment Trust Fund to carry out employment-related service programs designed to improve methods of locating employment opportunities for individuals who are receiving, or who are likely to begin receiving, unemployment compensation.

IN THE HOUSE OF REPRESENTATIVES

MARCH 19, 1986

Mr. ATKINS introduced the following bill; which was referred to the Committee on Ways and Means

---

A BILL

To direct the Secretary of Labor to establish and carry out a two-year demonstration project in which certain States may utilize a portion of their unemployment compensation accounts in the Federal Unemployment Trust Fund to carry out employment-related service programs designed to improve methods of locating employment opportunities for individuals who are receiving, or who are likely to begin receiving, unemployment compensation.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. DEMONSTRATION PROJECT.

(a) In General.—The Secretary of Labor shall establish, by October 1, 1986, and carry out a demonstration project during fiscal years 1987, 1988, and 1989 for the purpose of permitting any State described in subsection (b) to utilize funds in the State's account in the Unemployment Trust Fund (established under section 904 of the Social Security Act) to carry out employment-related service programs designed to improve methods of locating employment opportunities for individuals who are receiving, or who are likely to begin receiving, unemployment compensation.

(b) Eligible States.—A State referred to in subsection (a) is a State which makes a timely application to the Secretary of Labor to participate in the demonstration program established under this Act and which on October 1, 1986, on October 1, 1987, or on October 1, 1988—

(1) has no balance of advances, made under section 1201 of the Social Security Act to the State, in its account in the Unemployment Trust Fund;

(2) has an amount in such account that is, after deducting an amount equal to 25 percent of the amount of interest earned by such account during the fiscal year ending the previous September 30, in excess of the amount which is the solvency level (as determined under State law) for such account; and

(3) certifies to the Secretary of Labor that, taking into account all the expenditures estimated to be made from such account during the year ending on the next September 30 (including expenditures to be made under this Act), it is probable that such account will have an amount in it on such September 30 that is equal to or in excess of the solvency level referred to in paragraph (2).

(c) STATE CERTIFICATION AND PAYMENT TO STATES.—(1) The Secretary of Labor shall certify any State described in subsection (b) to the Secretary of the Treasury as a State entitled to receive payment, from the account of the State in the Unemployment Trust Fund, in the amount described in paragraph (2) for the fiscal year for which application is made.

(2) The Secretary of the Treasury shall make such payment from such account to any State certified by the Secretary of Labor under paragraph (1) for the fiscal year concerned in an amount equal to the amount requested by such State but not to exceed 25 percent of the amount of interest earned by the account of the State in the Unemployment Trust Fund during the fiscal year immediately preceding the fiscal year for which payment is made.

(d) USE OF FUNDS.—A State may use funds made available under this Act only to carry out employment-related service programs designed to improve methods of locating employment opportunities for individuals who are receiving, or who are likely to begin receiving, unemployment compensation.

(e) REPORTS.—Each State which receives payment under this Act shall transmit a report to the Secretary of Labor, on or before a date established by such Secretary, for each fiscal year for which such payment is made. Each such report shall contain—

(1) an accounting of the expenditures made or to be made of the funds received under this Act;

(2) a certification by the Governor of the State that all funds received were or are to be expended only for the purpose described in subsection (d);

(3) a description of the State employment-related service programs with respect to which the funds were or are to be used; and

(4) an evaluation of the effectiveness of the use of such funds in locating employment opportunities for individuals who were receiving unemployment compensation or who would likely have begun receiving such compensation without the service made possible through the funds provided to the State under this Act.

(f) REPORT NECESSARY FOR SUBSEQUENT APPLICATION FOR FUNDS UNDER THIS ACT.—No State which receives an amount under this Act with respect to any fiscal year may receive any amount under this Act with respect to a subsequent fiscal year until it transmits to the Secretary of Labor the report required of it under subsection (e) with respect to the fiscal year for which it has received funding.

○

Opening Statement of the Honorable Carroll A. Campbell, Jr. For the March 18, 1986, PAUC Subcommittee Hearing On the Alternative Uses of the Unemployment Compensation Trust Funds

Mr. Chairman, I join you in welcoming the opportunity to receive testimony on how we might improve the unemployment compensation system by considering alternative uses of the unemployment trust funds.

The law historically has limited the unemployment trust funds to the payment of unemployment benefits to persons who were actively seeking immediate employment. The objective was to re-employ the person as soon as possible. The unemployment system was not aimed at re-training. The implicit presumption in the system was that the person had already acquired marketable job skills or that new job skills would be learned while "on the job". These may have been reasonable assumptions 50 years ago when the unemployment system was created, but they should be reviewed in light of today's circumstances.

While the unemployment system itself may not have been expanded to cover job training, the Administration has developed other programs to provide job training. In particular, the Job Training Partnership Act has shown itself to be a sound and effective program. I believe that the Labor Department anticipates that this year over 1 million disadvantaged youths and adults will be served by the basic block grant program and that additional hundreds of thousands of workers will be served under the dislocated worker program.

Accordingly, we should evaluate the need for any changes in the unemployment system in light of the assistance provided by JTPA. Furthermore, we should pay attention to the interplay between JTPA and any changes we might consider in the unemployment system.

Another point which requires careful attention is the effect which expanding the uses of the unemployment trust funds will have on their financial solvency. Only a few years ago the trust funds of numerous states were inadequate to make basic benefit payments and they had to borrow from the federal government. Fortunately the economic situation in most states has improved significantly since 1983. However, any expansion of the uses of the unemployment trust funds will increase the financial demands on them. While the trust funds might absorb the additional demands in good economic times, it could exacerbate the solvency problems of the trust funds whenever the economy might experience a cyclical downturn.

Mr. Chairman, I am looking forward to receiving today's testimony and learning how we might improve the unemployment compensation system.

ENTREPRENEUR DEVELOPMENT INSTITUTE FOR TRAINING, INC
P.O. Box 193 Brice, Ohio 43109 614-866-8746

March 18, 1986

Sub Committee on Public Assistance
& Unemployment Compensation
Committee on Ways & Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Attn: Honorable Harold Ford, Chairman

Dear Representative Ford:

I encourage you to do everything possible in an effort to pass HR 1690. After listening to the comments of dislocated workers in our training program complaining about the redundancy of having to seek a job now that training is completed, is very disheartening.

Comments such as "Its a kick in the teeth to have the state allow us to participate in training that teaches us techniques on starting and managing our own businesses, and then tell us we can not have the oppportunity to apply our learning because we have to look for a job."

The Entrepreneur Development Institute for Training, Inc. was founded to provide an innovative atmosphere, street smarts training and quick start tips for those less fortunate in this country who want to start their own businesses. This bill-HR1690 would open many doors for the unemployed and it would help our JTPA funded training program be successful in its placement of dislocated workers in their own businesses.

I have attached to this letter, written testimony from some of our participants who would benefit from the passage of HR 1690.

Once again, I encourage you to do everything possible to get HR 1690 enacted.

Yours very truly,

Patricia F. Sciacca

Patricia F. Sciacca
Executive Director

PFS/bs
Enclosures

Your ideas create the business . . . Let our training help make it a success.

February 13, 1986

TO: Subcommittee on Public Assistance
and Unemployment Compensation
Committee on Ways and Means
U.S. House of Representatives

FROM: Beverly C. Soper
3401 Lanc-Kirk Road
Lancaster, Ohio 43130
(614) 756-9393

I am a dislocated factory worker from Lancaster, Ohio. I worked at Anchor Hocking Corp. for over 19 years. The factory shut down due to foreign imports. The last day when we all walked out for the last time was an overwhelmingly sad day in my life.

We desperatly need training programs for the dislocated workers of our country, so the American Dream dosn't die.

The problem I and many others have is, the lack of capital to start up a business. Most businesses start on a small scale. Banks and venture Capitolist are not interested in investing in small loams of $3,000 to $6,000 to new small businesses.

I am starting my own business. I will be an Antique Flea Market Promoter and the selling of Antique Jewelry and vintage clothing as indicated in my business plan.

I would like to see the passage of Bill HR 1690 happen. In addition to benefits outlined in HR 1690 I encourage Congress to allow funding for more training programs such as the one I just completed with the Entrepreneur Development Institute for Training.

The Entrepreneur Development Institute for Training has helped me realize my dream business. They have taught me many things and told me about resources I did not know about before, regarding starting a new business and also how to improve a struggling business, from writing a business plan to cash flow projection.

Thank You
Beverly C. Soper
3401 Lanc-Kirk Rd.
Lancaster, Ohio 43130
(614) 756-9393

Statement from John Morales for Bill HR #640

"Mr. Chairman, committee members, ladies, and gentlemen. My name is John Morales. I'm from Gahanna, Ohio, a suburb of Columbus, Ohio. After having been laid off from work in Jan. 1954, and having exhausted my unemployment compensation benefits, I finally feel confident enough (ie desperate enough), knowledgeable enough, and financially able enough to begin a part-time, word processing and data management service out of my home. I have begun to purchase equipment and supplies piece by piece as my savings and my wife's salary have allowed. I expect to acquire more knowledge, and some training, of this equiptment, and experience in providing these services with any clients I am able to at first acquire. Eventually, I hope to be able to focus on specific types of clients and to narrow my range of services to them while farming out other services that they might want. I expect that operating my business will be slow-going for some time to come because of delayed purchasing of additional and needed equiptment and supplies.

I have the Entrepreneur Development Institute for Training (EDIT) program to thank for being, available to me when I needed such a systematic way of learning about and producing a comprehensive and viable business plan. Their instruction and individualized counseling with me and my business concept has allowed me to go from wishful thinking in November 1985, to building my self confidence, helping to get me clearly focused, and beginning operations in the latter part of March 1986.

Had I had such a course of instruction, ~~and~~ counseling, and financial assistance two years ago, I expect that I would now be much further along in providing gainful employment for myself and others.

John Morales
5445 Morse Road
Gahanna, Ohio 43230

(614) 855-1851

5303 Parkline Drive
Columbus, Ohio 43232
March 13, 1985

Dear Sir:

I have recently been informed about Bill HR 1690 which would enable unemployed/dislocated persons receiving unemployment compensation to receive their compensation in one lump sum or over a one year period for financial business start up or income while the business is in the planning stages. I strongly support legislation which will assist persons of any age or race who have the strong desire to achieve what many people only dream of.

I am currently unemployed for the first time. I am fulfilling the entrepreneur dream with the assistance of Entrepreneur Development Institute for Training. With legislation such as HR 1690 I would have the capital my business start up requires without proving my future success or current worth for the use of "other people's money".

I will be looking for employment soon because I don't want to depend on bankers or others for the relatively small cash needed for my business to begin.

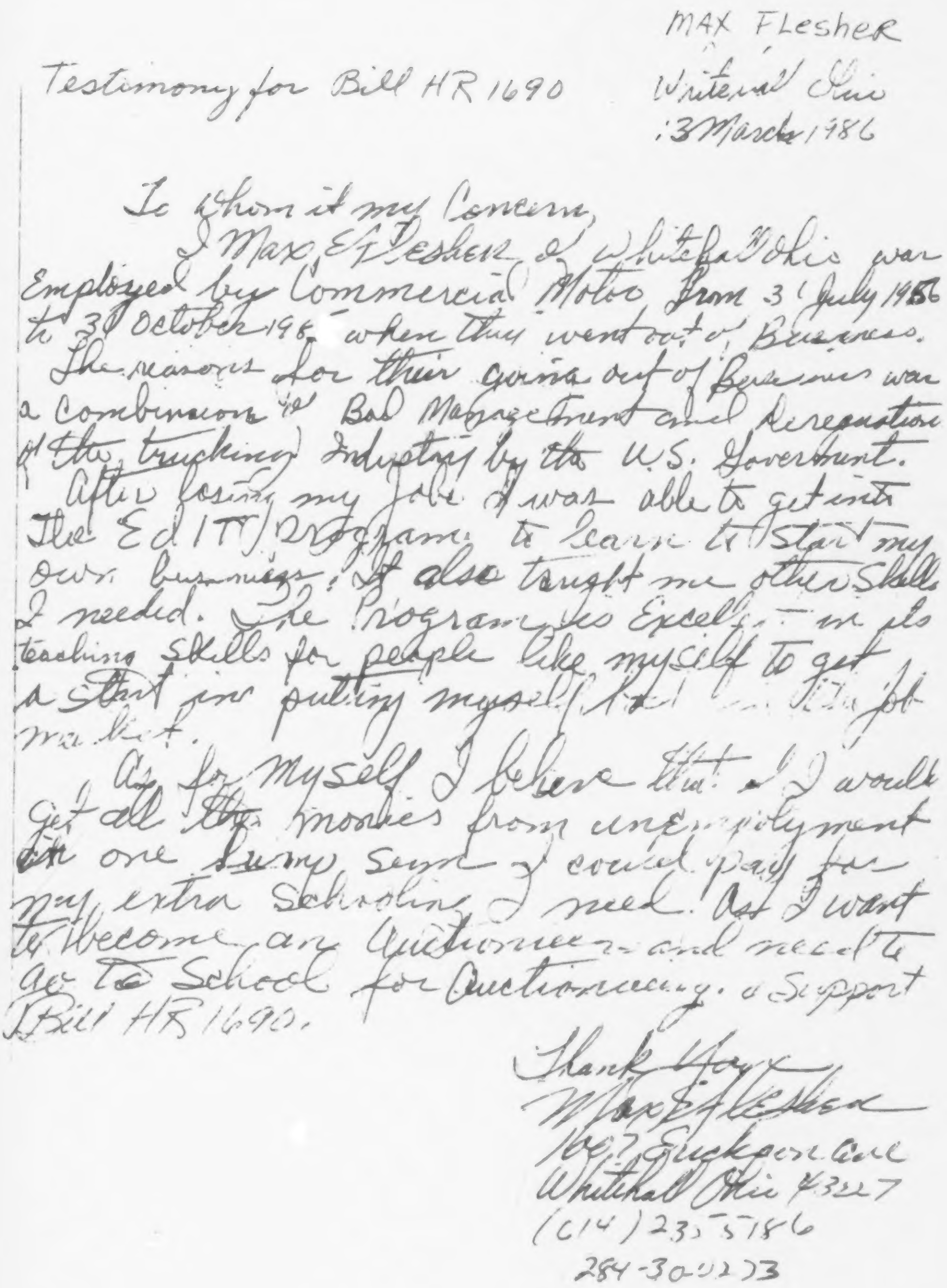
I urge you to strongly support HR 1690 and any other legislation which will guide and assist anyone with the drive to become entrenreneurs.

Sincerely,

Gayle Lester

Gayle Lester

[illegible]



MAX FLESHER
Whitehall Ohio
13 March 1986

Testimony for Bill HR 1690

To Whom it may Concern,

I Max E Flesher of Whitehall Ohio was Employed by Commercial Motor from 31 July 1956 to 31 October 19[illegible] when they went out of Business.

The reasons for their going out of Business was a Combination of Bad Management and Deregulation of the trucking Industry by the U.S. Government.

After losing my Job I was able to get into The Ed ITT Program to learn to Start my own business. It also taught me other Skills I needed. The Program was Excellent in its teaching Skills for people like myself to get a start in putting myself back in the job market.

As for myself I believe that if I would Get all the monies from unemployment in one lump sum I could pay for my extra Schooling I need. As I want to become an Auctioneer and need to go to School for Auctioneering. I Support Bill HR 1690.

Thank You
Max E Flesher
1007 Erickson Ave
Whitehall Ohio 43227
(614) 235-5186
284-30-0273

Columbus, Ohio
March 14, 1986

Testimony for Bill HR 1690

My name is Frances Beal, I am a displaced worker drawing unemployment benefits. My benefits of 147.00 per week will expire in 3 weeks.

I have been attending Entrepreneur Classes. During the weeks I was attending classes I did not have to look for employment. At my last week of employment benefits I am required to seek employment. This is absurd. I am about to launch in to business but have to stop everything and seek a job that I am not interested in obtaining at this time. I must do it or forfeit 147$^{\underline{00}}$ that I badly need. I expect many hardships in the months to come.

I am in agreement that additional benefits for beginning Entrepreneurs would be a God send for us all. I support bill HR1690.

Sincerely
Frances Beal

1213 Woodrow Rd
Columbus, Ohio
Ph 614-444-5767 43207

March 14, 1986
3211 Colony Vista Ln.
Columbus, Ohio 43204
(614) 279-9461

November 1985, the company for whom I had worked for 21 years closed their doors in bankruptcy and I became a displaced worker for the first time in my life. After 30 yrs. in the Industrial field and the last 21 with Commercial Motor Frieght Co. I felt devistated and angry.

Then I was offered the opportunity to forfill a life-long dream of owning and operating my own business through "The Entrepreneur Development for Training Institute." This Institute has given me all the knowledge, training, resouces, information and hope that I never could have received on my own.

My business plan is for a family oriented Ice Cream/ Pizza Parlor with live Clown entertainment.

Funding is the difficult phase of the small business man and this is indeed sad as the small business man is in the position of hiring other displaced workers and taking them off the welfare and food line charts and putting them in the responsible tax paying list. We need to get into the solution and not stay in the problem. Thus, I am in favor of House Bill HR 1690 and urge it be passed.

The people of this country need quality programs such as the "Entrepreneur Development for Training Institute" to become productive. The program is educational and thorough from beginning to end. It furnishes us with a chance to look to a brighter productive future.

Sincerely,

Frank H. Shambre

Frank H. Shambre

P.S. - GETTING ALL OF MY UNEMPLOYMENT BENEFITS AT THE BEGINNING, WOULD HELP ME TO GET MY BUSINESS STARTED.

March 12, 1986

Hello,

My Name is Sharnita Payne. I am a dislocated Worker from The Kenoy Inn, located on Rt. I-70 at 256, in Columbus Ohio, Operated by The Noble Inns Corporation. based out of Atlanta, Ga. I am very greatful for the opportunity to attend The Entrepreneur Development Insitute, designed to prepare me to operate a Catering business. I have desired to have a business of my own for several years, but, because of financial reasons, I have not been able to do so until this program began. E.D.I.T. has provided me with the training and knowledge I need to operate a business. The passing of Bill H R 1690. would definitely help my hopes and dreams become a reality. Getting a lump sum of money from unemployment, would get my business on its feet.

Sincerely,

Sharnita Payne
1081 Plum Ridge
Columbus Ohio 43213
Ph: 861-3485 (614)

Testimony for Bill HR1690

I was a dislocated factory worker from Lancaster, Ohio. My job was as an Electronic Technician. I worked at Anchor Hocking Corp for over 25 years. The plant shut down due to foreign imports.

I want to start my own business of Van Customizing or computer repair.

The trouble some of us are having is securing a loan for our business. A loan of $3,000 to $4,000 would be invaluable to start a small business.

I encourage you to pass Bill HR 1690 so the dislocated workers can have the opportunity to have the capitol to start on their own business. Getting a lump sum of money from unemployment would get us started.

I just completed a training program with Entrepreneur Development institute training program. The program is an excellent for anyone who wants to start their own business or who wants to improve their on going business.

RONALd PRATHER
250 HILLCREST DR
LANCASTER, OH 43130

Ronald B Prather
(614)-654-6979

House Subcommittee on H.R 1690

My name is Maurice Gordon, 749 Barr Drive, Lancaster, OH 43130,
Phone (614) 654-5609 Home Business (614) 687-6034 Business,

I didnot Collect U.I. Benefits as I have a small Company Pension, and Working Part Time on a filling station, put me over, what I was allowed, in order to Collect U.I.

I had wanted to start my own business for some time, Part Time, before I became a dislocated worker from Anchor Hocking Corp. If I had had proper training before, or earlier, to be in business for myself I could have done it.

I was fortunate to have a small income, where most of my classmates only had U.I., To Keep them going.

It is a very necessary bill, to help these people and ones like them in t future, to help them to become Gainfully (Self-Employed) Citizens. To help them to Keep Self Respect, and possibly of later Welfare Rolls.

These are the people of future Business, and Most will probably end up ~~has~~ Creating new Jobs for others.

I urge the passage of this Bill H.R. 1690 as a vital renewal to o economic future.

Respectfully,
Maurice R. Gordon

HAQQ ENTERPRISES (614) 882-2570
2135 YORKHULL LANE COLUMBUS, OHIO 43229

March 18, 1986

Subcommittee on Public Asistance
& Unemployment Compensation
Committee on Ways & Means
1102 Longworth House Office Bldg.
Washington, D.C. 20515

Attn: Honorable Harold Ford, Chairman

Dear Representative Ford:

As a consultant on the EDIT, Inc., entrepreneurial training for dislocated workers, I encourage you to do everything possible to pass H.B.1690.

In 1984, I was a dislocated worker and decided to start my own consulting business. I wish that an instrument such as H.B.1690 was in place at the time I started my business because I suffered, due to lack of financial assistance.

Passage of this bill will alleviate many of the burdens dislocated workers are faced with.

Sincerely,

Jalilah Haqq

Jalilah Haqq
Consultant

WEEK OF MARCH 17, 1986 BUSINESS FIRST OF GREATER COLUMBUS

Program to train dislocated workers drawing attention

By ANN HOLLIFIELD

When France sent the manager of its department of labor, employment and professional training to the United States to look at programs for the unemployed, he wound up in Columbus.

The reason is an experimental program here to train dislocated workers as entrepreneurs. The program is called the Entrepreneur Development Institute for Training, Inc. Still in its infancy, EDIT is already at the crest of a wave of new ideas for reducing unemployment in America.

The Columbus program is a non-profit experiment started last year by two Columbus business women. Funded by the state of Ohio through a $60,000 Job Partnership Training Act grant, EDIT recently graduated its first class of 23.

The program is designed for people who have lost their jobs through plant closures and layoffs. It teaches the skills of business planning, financing and development. EDIT is apparently the first program of its kind for dislocated workers in the country.

It probably won't be the last. Legislation to change unemployment compensation laws to help unemployed workers start new businesses has been floating through Congress since last March. Testimony will finally be heard Tuesday by the House Ways and Means Subcommittee on Public Assistance and Unemployment compensation. The bill, HR 1690, would let states experiment with using unemployment benefits to fund new business ventures.

The idea of using unemployment funds for business start-ups first surfaced in Europe. In 1979, France began a pilot program of giving people unemployment benefits in a lump sum as seed money for new companies. Three years later, Great Britain began giving workers unemployment benefits during the first months of business ventures.

Yves Mauguen . . . studying Columbus program

Both approaches have been successful. A quarter of a million people have participated in the two programs, and another 150,000 businesses are expected to be launched under the programs this year.

Under HR 1690, the United States may eventually try both ideas. Connie Spruill, one of the founders of EDIT, will testify before the subcommittee in support of the bill. Her program doesn't have the funds to offer capital support to students, only training.

"What we offer is a quick start, street smarts program," Spruill said.

It was that approach Yves Mauguen, manager of the French project, came to EDIT to see. France gives money but no training to its entrepreneurs, and Mauguen was in the United States to look at various ideas for providing education and support as well as money.

The EDIT approach is a 12-week course that teaches students how to develop a business plan, research a market, find capital and launch an enterprise. Business plans developed by EDIT students range from an in-home care service for the elderly and disabled to an ice cream parlor with live clowns for entertainment. Spruill said between 16 to 18 of those businesses will be launched in the next six months.

"I would like to be able to work not only with dislocated workers but also with the unemployed," Spruill said. "You know small business is the backbone of this coun-

Venture capital is the critical issue for unemployed workers trying to start small businesses. Janet Topolsky, communications director of the Corporation for Enterprise Development in Washington D.C. said non-traditional business owners have a hard time tapping traditional funding sources. Her organization is supporting efforts in Congress to make room in the unemployment system for entrepreneurs.

"We should be spending more effort investing in people, not maintaining them," Topolsky said.

That's the thrust behind HR 1690. The bill would let up to 10 states experiment with using unemployment funds to help business start-ups. Participating states would have a choice between giving entrepreneurs lump sum payments of unemployment benefits as in the French model, or keeping them on the unemployment roles during start-up as the British do.

Daniel Clark, district manager for Cleveland Congressman Edward Feighan, said the bill is getting bi-partisan support because it costs nothing to implement and will create jobs. Clark said research shows that 80 percent of new jobs are created by small businesses.

"It's an economic development bill, as we see it, just as much as an unemployment compensation bill," Clark said.

Feighan is one of 32 co-sponsors of the bill.

If the European experience holds true in this country, Clark may be right. Topolsky said in Britain for every new business funded through the uenemployment program, 1.5 jobs have been created.

No one is suggesting that funding new businesses will completely solve unemployment problems, but support for the idea is growing. Clark said HR 1690 has suffered more from apathy than opposition in the last year, but he thinks the time is right for the measure to make it out of committee and come before the full Congress.

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA—UAW

OWEN F. BIEBER PRESIDENT RAYMOND E. MAJERUS SECRETARY-TREASURER

VICE PRESIDENTS

BILL CASSTEVENS • DONALD F. EPHLIN • ODESSA KOMER • MARC STEPP • ROBERT WHITE • STEPHEN P. YOKICH

IN REPLY REFER TO
1757 N STREET, N.W.
WASHINGTON, D.C. 20036
TELEPHONE (202) 828-8500

March 21, 1986

Honorable Harold Ford
Chairman
Subcommittee on Public Assistance and Unemployment Compensation
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

This communication is to share with you and the members of your Subcommittee the views of the UAW on H.R. 758, H.R. 1690, and H.R. 1947. We will appreciate your making this letter a part of your hearing record on these measures.

At a time when more than 8 million Americans are officially jobless, there seems to be a most regrettable lack of public attention to serious efforts to mitigate their plight or to get them back to work. Although the unemployment rate has come down since the height of the 1982 recession that fact is no reason for complacency. Even after three years of the so-called, recovery we face unemployment rates at levels previously associated with economic recession. Furthermore, there has been a serious erosion of unemployment insurance coverage for the unemployed. Because of restrictive changes in eligibility, decimation of programs for the long-term jobless, and chronic underfunding, fewer than 30 percent of the official jobless now collect any type of unemployment insurance.

Against this background various proposals have been put forth in Congress to suggest new uses for the assets of the unemployment insurance system. While these plans deserve credit for recognizing that mass unemployment is neither acceptable nor inevitable, and that it will not cure itself, they fall short of the bold and innovative action needed to reform the unemployment insurance system and help move the country toward genuine full employment.

H.R. 1690 would authorize several demonstration projects in which the jobless could use unemployment compensation funds to start their own businesses. It is our judgment that this would not be a meaningful option. The average unemployment compensation payment is $122 a week. In 26 weeks, the normal maximun period for unemployment insurance eligibility that would provide just over $3,000, an amount far below what is needed to start almost all businesses. Furthermore, small firms are often very fragile. About 70 percent of firms with less than 20 employees fail within four years. Finally, the chances for developing a small business would be rare during recessions when the jobless need help the most.

With respect to H.R. 758, short-time compensation -- an arrangement where workers receive unemployment insurance benefits for working time lost when available work is shared through a reduced workweek for all -- can be an alternative in some situations that cushions the impact of unemployment. Short-time compensation is a viable alternative when an economic downturn is short and when the union involved has agreed to the plan. But short-time compensation is not an adequate response to the unemployment that results when a firm or industry is experiencing a major reduction in employment. While we endorse the provision that would allow workers to be eligible for short-time compensation for time spent in state approved training while continuing to be employed on a reduced workweek, we oppose that part of the bill that provides incentives for workers to take unsuitable work. More fundamentally, we do not think that the incentives in this bill to expand the number of workers enrolled in training, are an adequate alternative to sound public funding of training programs.

H.R. 1947 is an effort to improve state agencies' coordination between unemployment insurance and training programs. It would require state designation of a single state agency to make prompt determination as to training programs approved for individuals receiving unemployment compensation. Current law prohibiting states from disqualifying claimants in approved training has not been effective. Most states have no criteria for approving training while on unemployment compensation. The UAW favors H.R. 1947 because we believe it will clarify and strengthen existing provisions concerning unemployment compensation eligibility for workers in training. We also support the proposed interest credits to states that pay unemployment compensation to claimants who receive approved training.

In conclusion, Mr. Chairman, while we support some of these proposals we do not think that any of them addresses the most important problems facing the unemployment compensation system. Adding to the unemployment insurance system the promotion of entrepreneurship or retraining functions ignores weaknesses in a system that desperately needs major reform.

Federal law requires states to tax only the first $7,000 of wages -- roughly equivalent to the minimum wage. The ratio of wages subject to unemployment insurance taxes was 98 percent in 1939; today, it is 36 percent. Indexing the cap to changes in average wages would add about $10 billion to reserves by 1988 and relieve financial pressure on benefits. To restore the nation's unemployment insurance system as a bulwark of protection for jobless Americans would also require removing harsh eligibility and disqualification provisions, providing jobless aid to the long-term unemployed, establishing federal minimum benefit standards, and rejecting attempts by the Administration to transfer to the states the responsibility for funding the administrative costs of the system.

Providing temporary wage replacement to idle workers and their families over a job-loss period is a vital government function that desperately needs to be strengthened. Improvements in unemployment insurance should assure protection that is both adequate and widely available. Creativity is welcome, but so is a renewed commitment by government that goes beyond mere tinkering with existing, inadequate resources.

Sincerely,

Dick Warden
Legislative Director

DW:mgb
opeiu494

cc: Subcommittee Members

Testimony
Of
Kristin S. Demong
Director

Massachusetts Division of Employment Security
March 18, 1986

As we enter the Unemployment Insurance (UI) program's sixth decade of service, we have reason to reflect proudly on the performance of a national program which has helped sustain millions of American families since its inception so many years ago. The system's most fundamental function is to pay insurance benefits to workers who have lost their jobs.

Even in Massachusetts which tied with New Hampshire for having, at 3.9%, the lowest unemployment rate, in the nation during 1985, 10% of the Commonwealth's workforce made use of the U.I. system. 40% of these 300,000 people needed the system as a "public sector bank", a place to turn only for financial support during short periods of unemployment. The other 60% had been permanently separated from their jobs and needed the U.I. program and the Employment Service (ES) to serve as a re-employment system.

The challenge we face today, is to build upon the national program's years of success and ensure that the program is now prepared to meet the demands of a new economy, an economy scarcely resembling the world of the 1930's.

In Massachusetts, employment and training activity has been marked by a history of public/private partnership. As we respond to today's new demands, this spirit of public/private cooperation must continue to be the centerpiece of our work.

Dislocated Workers are casualties of economic change. They are experienced workers whose skills have lost their labor market value, they are people haunted by the prospect of having the economy pass them by. Collectively, they represent a new kind of unemployment and pose a challenge the Unemployment Insurance system must help meet if it is to remain a modern and effective jobs program.

Three principles should now guide the operation of an effective U.I system in this changing economy: (1) an adequate level of benefits need to be paid to workers in a timely and reliable manner through good management and maintenance of a solvent Trust Fund; (2) the U.I. program needs to be highly coordinated with the Employment Service to maximize its service as a modern and effective jobs program; and (3) the program must allow for greater flexibility in the use of U.I resources so that we can [illegible]t our resources and keep them working for the re-employment purposes of our program.

In Massachusetts, we have set out to take up this challenge of adapting the U.I system to emerging needs. We are developing a portfolio of options for workers who lose their jobs. Three initiatives have focused particularly on dislocated workers.

The first is the Massachusetts Dislocated Worker Program, established under the Massachusetts Mature Industries law, designed to respond to plant closings and large scale lay-offs. In 1985, we responded to 94 plant shutdowns, distributed supplemental UI benefits to 3,000 workers, and operated 16 Emergency Assistance Centers funded by both Federal and State resources, which offer job counseling and job development services as well as offering support services such as financial planning, retirement planning, and other assistance. Unemployment spells decline in frequency and length when this kind of special attention and customized service is focused on the needs of dislocated workers. The Centers have helped workers find new jobs at good wages. The average re-employment wage last year was over $7.00 per hour, which represented 92% of workers' previous wages. Although workers suffered the pain of dislocation, preliminary evaluation results indicate that the majority rate their overall job satisfaction higher in their new job than in their old one.

The second initiative represents a tool central to our efforts at getting dislocated workers back to work. The DES Training Opportunities program enables dislocated workers to enter a retraining program while they are collecting UI benefits and provides an extension of benefits if needed. In 1985, 700 workers were retrained for new jobs under this successful program.

Finally, benefiting from the experience of a number of states across the country, we are pursuing state legislative authority to initiate the DES Worksharing program as a means to maintain employment attachments during economic downturns and prevent layoffs.

I think each of these efforts represents the kind of innovation needed to update and strengthen our national UI program. But our success will be limited unless Federal changes are now instituted to permit and pilot "flexible uses" of U.I Trust Fund dollars. The problems of our new economy require innovative programing within the U.I. system. "Flexible uses," the ability to invest Trust Fund dollars, in excess of a state solvency standard, in private sector jobs and training initiatives, is now needed. Once a state solvency standard is developed in consultation with business and labor, flexible use funds could be identified and tested for their effect on length and frequency of unemployment. In the absence of this flexibility, states are forced to "double tax" employers in order to generate funds for innovation, a mechanism that is inefficient, expensive, and not fair to the employers who finance the U.I. program.

A variety of investment decisions could be made by states at different times and under different economic situations. These would be determined through a consultation process at the state level that would include business, labor and government.

Described below are new ideas and short-term initiatives we would like to test in order to expand the portfolio of options we offer workers. The objective in all of these experiments would be to shorten spells of unemployment and reduce their frequency. Each would be rigorously evaluated to determine program effectiveness. Fairness would be maintained in benefit charging for all of these initiatives. The options could include:

Employment Assistance Centers

Provide additional resources for these successful programs and test new approaches to plant closing response in order to improve the skill levels and re-employment potential of workers displaced by technological change.

Individual Training Accounts

Providing workers and their families with resources and flexibility to make training and vocational education choices as a route to re-employment and enhanced economic security, by establishing individual training accounts for workers where both the employers and individuals would contribute to the account.

Workplace Literacy

Establish literacy training at the workplace to strengthen the quality of our workforce and expand workers' opportunities for career advancement and when necessary, re-employment.

Customized Training Packages

As a component of local and regional economic development initiatives, employers would be offered training for their workers in exchange for locating or remaining in a particular area.

Skills Development

Training directed toward part-time workers during their time off, designed to help workers develop skills necessary to escape underemployment.

Self-Employment Options

Creating avenues for unemployed workers to start new businesses with the potential of employing themselves and others. Also, providing groups of workers with the resources they need to purchase a facility facing closure, thereby enhancing the viability of a worker buy out.

I am extremely pleased that members of the Congress are contributing to the development of UI innovations and flexible uses of U.I. Trust Funds. Today, I would particularly like to comment on the three bills before the committee.

HR 1947

Representative Kennelly's bill is in many ways consistent with our Massachusetts UI training initiative. We applaud this effort to open training opportunities to U.I. claimants across the country.

HR 758

Representative Stark's bill combines a number of innovations. We support the short-time compensation concept and as I noted, plan to implement a similar program in Massachusetts under the name "Worksharing". However, the bill's training component should be made more flexible. We think that eligibility should be opened beyond the first eight weeks of a claim, and prefer an extension of benefits as opposed to spreading out dispersement of 135% of a claimant's benefit account. Our most serious concern is over the cash-out provision of the bill which would function as an inappropriate incentive for dislocated workers to accept low wage jobs. Many of these workers are ultimately required to accept these jobs but to undercut the existing wage would not be effective. Resources would be better spent helping these workers to find new work with wages comparable to their previous employment.

HR. 1690

Representative Wyden's bill introduces a concept which has been successful in both Great Britain and France. The idea of using UI resources to help unemployed workers start their own businesses holds the promise of not only employing the individual entrepreneur but also others who would find jobs in a successful small business. The idea would go a long way toward expanding the options we make available to U.I claimants.

In Massachusetts, we have frequently discovered dislocated workers who would like to start new businesses but lack the capital to get started and the freedom under the UI laws and regulations to devote full-time to developing their business. For example, a highly skilled machinist who lost his job in Central Massachusetts recently expressed interest in starting his own business providing high level skill training in the machinist trade. A self-employment allowance would have been a great help to this ambitious entrepreneur.

It will be important to permit groups of claimants to pool their "self-employment allowances" to start new businesses and where possible, purchase plants facing closure. In many instances the ability of workers to pool their allowances will greatly improve the prospects of a new business.

Finally, we have two additional comments to make. First, it is important that the Committee understand that the current inflexibility of UI administrative funding would make operating and evaluating these programs extremely difficult. Additional administrative funds and relief from the restrictiveness of position allocations generated by the cost model will be necessary to make these programs work.

Secondly, in considering the benefits of most of these programs, as well as our own, it is important to note that if these programs allow a claimant to return to work sooner than he or she otherwise would have, savings to the Trust Fund will be realized. In addition, more general public savings will be realized as the individual becomes a full participant in the economic life of their community. And in the long run, the tax burden on business would be lessened by shortening the duration and frequency of unemployment.

Again, I appreciate the Committee's interest in the subject of U.I. innovation and look foward to the development of a more flexible system, prepared to meet the demands of today's economy. Thank you very much.

March 21, 1986

Honorable Harold E. Ford
Chairman, Subcommittee on
Public Assistance and Unemployment Compensation
Committee on the Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman:

The National Association of Personnel Consultants appreciates the opportunity to submit its written testimony on Alternative Uses of Unemployment Compensation Trust Funds to Assist Dislocated Workers for inclusion in the hearing record.

Our association is composed of firms whose profession involves matching applicants with job openings. We are thus a part of the process that causes people to gain employment. Our services are generally paid for by employers who seek to fill job openings, although some of our industry members place individuals in positions where the employer will not pay to have the position filled. Generally, this occurs when applicants lack current training and to get the position and the current training, applicants themselves will pay agencies to locate a position for which they are hired. Payment is due only if they get the job.

NAPC believes that it has something to contribute to the effort to help workers who are the object of your concern--those whose jobs have been permanently lost. Experience shows that many people have abilities that are desired by employers, even if these abilities were not important in their former job. Some of NAPC's members volunteered to assist government workers caught up in the large scale reductions in force (RIFs) in 1981; they found that many of them had qualities desired in the commercial marketplace but needed assistance to highlight these qualities and market themselves effectively. This is the type of approach private agencies could bring to the problem that you are studying, with the great advantage that unless these workers obtained employment, there would be no cost.

Members of this industry have successfully placed welfare recipients with government-provided vouchers in States like Pennsylvania and Texas and these contracts have been renewed by the welfare agencies in those States. Private employment agencies would like to be considered as a resource to place dislocated workers, using a voucher system that has already proven itself. NAPC appreciates the opportunity to set this out in the accompanying testimony.

Sincerely,

Barry R. Niemann /sc

Barry R. Niemann, CPC
Chairman, Government Affairs Committee,
National Association of Personnel Consultants

WRITTEN TESTIMONY
FOR HEARING ON
CREATIVE USES OF
UNEMPLOYMENT INSURANCE

The National Association of Personnel Consultants (NAPC) appreciates the opportunity to present its views on what can be done to help dislocated workers get back into the work force. NAPC is made up of firms from an industry that matches prospective workers with positions. Some of its members are executive recruiters, some operate temporary services, but the mainstay of most of them is taking job orders from people in industry and then finding people who can fill these job orders. Private agencies only get paid when they perform. If they furnish an applicant whom the employer does not think is suitable, they do not get paid. If after being hired an applicant is found to be inadequately qualified and is discharged within a reasonable period of time, generally 30 days, the agency does not get paid.

Unemployed workers today are assisted by the publicly-funded Employment Service, known in the various States as the Job Service, Employment Security, or similar names. Not all of the unemployed, however, are helped by the publicly-funded service. And that is where NAPC believes it can increase the effectiveness of national efforts to put people back to work.

For some time, private agencies have sought the opportunity to place those workers whom the public service is unable to place. The 1982 Amendments to the Wagner-Peyser Act (which governs the Employment Service), allowed referral to private agencies who would not charge any applicant a fee for finding a job. Despite this, there is still enormous resistance from almost every State Job Service to any type of cooperation in this area. This, of course, is particularly frustrating to NAPC members who, as employers themselves, pay taxes to help fund the Employment Service. Nevertheless, with the sole exception of Maryland, there is no visible effort by the publicly-funded Job Service to utilize the resource that NAPC members represent.

In the case of the dislocated workers that are the subject of your hearings, NAPC believes that finding jobs through an employer-paid fee would be particularly difficult because of the nature of the jobs these workers formerly held. However, one constructive use of the Employment Trust Funds would be to put dislocated workers in the same position as many individuals who now come to one of NAPC's applicant-paid members--provide them with the ability to compensate a private agency for work on their behalf in finding a job. NAPC believes that a voucher system, already used in Texas and Pennsylvania to compensate our members for finding jobs for welfare workers, would be both practical and efficient.

Because private agency performance is directly tied to compensation, NAPC believes that involving members of the personnel consulting industry in any creative effort is a very low risk proposition. For example, if other people contend that prvate agencies do not handle the kind of jobs that people coming off Unemployment Insurance are able to perform, there is a quick way to test it. Try it. Again, remember that it the private agency does not place an applicant, no fee is charged.

Assisting dislocated workers in finding suitable work is something that NAPC believes its members will be comfortable in doing. One of the major reasons is that whatever the job formerly held by the dislocated worker, we have an individual who has work habits and has been able to hold down a job. This goes a long way to making someone job-ready.

Your press release requested that any statement comment on three pieces of legislation currently before the

Congress--H.R.s 758, 1690 and 1947. NAPC claims no great expertise in the development or evaluation of government programs, but its members have seen them in operation in our areas of concern. Any such program has to be carefully designed because it can wind up benefitting a different group from those originally intended, as well as costing far more money than planned, or perhaps not producing the hoped-for results. Looking at the proposals, H.R. 758 would fund training programs for individuals in declining industries, at a cost of 200 million dollars a year. If the Bill contemplates massive use of on-the-job tranining, which seems to work in some instances, it might be a way for the government to subsidize re-training workers for differing industries. However, NAPC believes that any such training must be accompanied by intensive screening to insure that the individual can adapt to the training and intends to use it after it is provided.

On H.R. 1690, NAPC considers that only a very small percentage of the structurally unemployed workers have the necessary qualities to become self-employed businessman. An overwhelming majority of small businesses in this country fail in the first three years and many of those are better capitalized than firms operating under this program would be. NAPC has a concern, frankly, about the likelihood that consultants and others would spring up to assist recipients of the allowance in setting up a small business. Too often these consultants that assist in government programs wind up being bigger beneficiaries than the targets.

As for general training programs, which seem to be the focus of H.R. 1947, they face the same risks that past training programs do--the need to insure that there is a job waiting at the end of the training. NAPC notes that this Bill would create something in the nature of a pilot program and involves a study of the results. That seems to be a wise approach.

Returning now to what private agencies might be able to do, since they perform on a pay-if-satisfied basis, neither new appropriations nor a new bureaucracy is needed to let them take a crack at helping the dislocated workers. If it is worth a certain amount of money to place one of these workers, then private agencies could evaluate whether they could place them for the voucher amount and enlist in the program. It is simple and clean-cut. NAPC thinks it deserves a try.

NAPC has attempted to work with the State of New Jersey, which is the recipient of a 5.2 million dollar Department of Labor grant aimed at exploring creative uses of Unemployment Insurance funds, just as your hearing has. NAPC has approached both the contractor and the State about this a number of times, and although the conversations were always polite, it is clear that the current plan will not permit workers to use a voucher to find work through a private agency. Perhaps this is a carry-over from the competition between the public and private agencies, for the State Job Service automatically gets a chance to place anyone on the U.I. rolls. NAPC plans to continue to press the State and the Department to let members of this industry have the opportunity to place dislocated workers. Issues like this are too important for turf fights to stand in the way of using all available resources.

NAPC's members again have demonstrated that they can find jobs for individuals across the spectrum of employment positions. Personnel consultants are not the magic answer for this problem--there is no single magic answer--but they are professionals who can make a contribution by doing for the dislocated worker what they have done for thousands of people. Savings to the UI Trust Fund soon repay the fee for the service of finding a job for workers whose jobs have been permanently lost. The benefits to the worker, who once again is back on the job, is perhaps even greater. NAPC would like to assist in the solution to this natural problem.

National League of Cities

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March 21, 1986

The Honorable Harold E. Ford
Chairman, Subcommittee on Public
Assistance and Unemployment
Compensation
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office
Building
Washington, DC 20515

Dear Chairman Ford:

This letter to be included in the hearing record of March 18, 1986 comes in strong support of H.R. 1690, the Self-Employment Opportunity Act of 1985. The National League of Cities has long supported the concept embodied in this legislation of allowing a limited number of unemployment insurance recipients to use their benefits for self-employment purposes.

The National Municipal Policy (NMP) of National League of Cities includes language recommending that "the federal government amend the unemployment compensation laws to allow states and communities to experiment with the use of unemployment compensation funds to support job creation and entrepreneurship along British and French lines." (NMP 4.01(B)(9)).

Unemployment insurance was originally intended as a temporary source of support for people temporarily unemployed. The restrictions placed on the funds were based on those assumptions. Conditions, however, have changed. The unemployment rate remains above seven percent in cities across the country, two years after we have supposedly ended a recession.

More than eight million people are looking for jobs, jobs that might no longer be there for them. It's time to try a new way of helping the unemployed become self-sufficient and productive. It's time to ask: should people lose their unemployment insurance eligibility if they attempt to go into business for themselves? The Self-Employment Opportunity Act adds a new dimension to our unemployment system. It is an attempt to allow state and local agencies to design programs to empower people, rather than encouraging dependency. It transforms the current system into one that is capable of creating jobs, giving the unemployed a choice in solving their employment problem, a choice which they are denied under current law.

The basic premise of H.R. 1690 is that the unemployment system can become a dynamic engine of economic innovation, entrepreneurism, and job creation--as well as an income maintenance program. Successful models of achieving such goals are already underway in Europe.

Since 1979, more than 250,000 unemployed workers have started new businesses through similar programs in Britain and France. Each enterprise created one and one-half new jobs, and each was financed by unemployment benefit funds that new entrepreneurs would have been paid anyway if they had remained idle.

The British "Enterprise Allowance" program, strongly supported by Conservative Prime Minister Margaret Thatcher, has given birth to enterprises ranging from sheet metal fabrication shops to lamp shade manufacturing.

Half of the entrepreneurs reported that they would never have attempted going into business without the program. One-third had been unemployed for more than a year. Eight of 10 enterprises were still operating after 18 months, a higher survival rate that for other fledgling businesses. About two percent of Britain's unemployed have joined the program.

The French Chomeurs Createurs (Creative Jobless) was introduced on an experimental basis in 1979 and made national policy a year later. The program allows any French citizen entitled to unemployment compensation or welfare to collect 30,000 francs (about $3,000 at the current exchange rate) in a lump sum to start a business. The amount can be increased to as much as 50,000 FF if the entrepreneur creates another job in addition to his or her own within the first six months.

As of March 1983, 74,727 jobless people have participated in the program and a government evaluation estimates that between 60 percent and 80 percent of the businesses started under the program have survived for three years. Officials also estimate that as many as one-third of the 110,000 new businesses created in France in 1984 were a result of the program.

The theory behind the legislation is simple. We believe that the best unemployment compensation is an opportunity to create a new job. And when our economy is not creating new jobs fast enough to provide work for all those who want to work--as is evident by the recent dramatic increase in the unemployment rate--the government must be willing to try something different.

This bill recognizes that some of our most important assets--the skilled unemployed--are worth investing in. The imperative of economic growth in cities everywhere demands that we not let these important people go by the wayside. H.R. 1690, the Self-Employment Opportunty Act of 1985 provides a means by which to achieve this municipal and national imperative and we heartily support its swift enactment into law.

We appreciate this opportunity to submit our statement of support for H.R. 1690 for inclusion in the record. We look forward to subcommittee and committee action on this bill and its favorable consideration before the full House. I trust that you will call upon the National League of Cities for any assistance which we may provide.

Sincerely,

Henry Cisneros

Henry G. Cisneros, President
Mayor of San Antonio

STATEMENT OF HON. CHARLES E. SCHUMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, I want to take this opportunity to thank you for scheduling this hearing today. Searching for ways to assist dislocated workers is one of our country's greatest challenges, and I believe that we should explore every alternative in our quest for answers to this vexing problem.

Toward this end, I am an original sponsor, along with Congressman Ron Wyden and Congressman Richard Gephardt, of the Self-Employment Opportunity Act of 1985, H.R. 1690. The bill is an experimental program designed to transform the current unemployment insurance system--which is used primarily for income maintenance--into a system that permits individuals to create their own businesses while receiving unemployment benefits.

As introduced, the Self-Employment Opportunity Act would enable recipients of unemployment insurance in five to ten states to create experimental programs. The Act enables states to give workers their unemployment compensation in a lump sum and use it as "seed capital" to create a new business or the state can continue issuing benefits on a weekly basis to a worker during his or her start-up phase as a form of "working capital." Under the current law, these workers would be ineligible for payment, since they are not actively looking for work.

This legislation is an experimental, demonstration program which would have a zero revenue impact since no one would be eligible for any benefit to which he or she is not already entitled. Moreover, these pilot programs will be limited in several ways. First, no more than 5 percent of a state's eligible unemployment compensation beneficiaries will be allowed to participate. Second, the programs will terminate in three years followed by an evaluation of the results by the Department of Labor. Finally, the Department of Labor may approve applications from no more than ten states.

Obviously, these programs are not designed for workers with no other financial resources or means of support. A large percentage of unemployed workers, however, do have other means of support. Indeed, many workers still have employed spouses, receive lump sum severance payments when a factory shuts down, have access to financial assistance from other family members or friends.

Our legislation could make a significant difference for many of these workers who are not dependent upon unemployment insurance as their sole means of support. According to a survey done by the National Federation of Independent Business (NFIB), 18 percent of those businesses surveyed were able to open their doors with less than $5,000 in capital and another 13 percent started up with between $5,000 and $10,000 capitalization. Consequently, for many workers, H.R. 1690 represents the difference between simply collecting benefits for 26 weeks and filling out job applications or having the opportunity to start a new business.

Our proposal is modeled after successful programs already underway in Great Britain and France, which have enabled more than 280,000 people to become self-employed in the last five years. In Europe, two thirds of the new small businesses created by laid off workers through self-employment programs are still operating three years after start-up, and one third of all new businesses in France last year resulted directly from this program.

The Self-Employment Opportunity Act is not a panacea. It does not address the needs of all those who are unemployed and collecting compensation. The Act, however, offers many unemployed an opportunity to widen the ladder of opportunity at no expense to the federal government. For this reason alone, it is worth trying.

STATEMENT
on
ALTERNATIVE USES OF UNEMPLOYMENT
COMPENSATION TRUST FUNDS TO ASSIST DISLOCATED WORKERS
for submission to the
SUBCOMMITTEE ON PUBLIC ASSISTANCE
AND UNEMPLOYMENT COMPENSATION
of the
HOUSE COMMITTEE ON WAYS AND MEANS
for the
U.S. CHAMBER OF COMMERCE
by
Robert L. Martin*
March 18, 1986

INTRODUCTION

The U.S. Chamber of Commerce, on behalf of its more than 180,000 members, appreciates the opportunity to present its views on the unemployment compensation (UC) system, assistance available to dislocated workers, and two bills (H.R. 1690 and H.R. 758) being considered by the subcommittee.

The Chamber is committed to assuring the long-term viability of this country's UC system, a federal-state partnership that fairly and promptly serves the needs of employees and employers. Under this system, qualified unemployed workers are provided with weekly income maintenance payments to assist them through periods of temporary, involuntary breaks in employment. Also, employers are assured of a stable work force through their contributions to the federal and state UC accounts. Because of the historic success of this system, the Chamber opposes H.R. 1690 and H.R. 758 and any legislative proposal violating this delicately balanced aid to employers, employees, and their communities. It also recognizes the need to assist those workers facing prolonged unemployment. To do so, it supports full implementation of the services provided under the existing Job Training Partnership Act (JTPA) for dislocated workers.

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* Associate Manager, Community Resources Section, Chamber of Commerce of the United States.

Background

The UC system has been an integral part of the American social insurance system since 1935. The UC system was designed and operates as a program of income maintenance for workers experiencing temporary and involuntary unemployment. It is a combined federal-state partnership, in which each partner has clearly defined roles and responsibilities. The objectives of the UC system are threefold: first, to alleviate financial hardships of temporarily unemployed workers; second, to encourage stabilization of a community's employment; and third, to help cushion the overall economy from the impact of periodic economic downturns by retaining a portion of a worker's purchasing power.

Federal law established the UC federal-state partnership by providing the bases for creation of state programs and program administration, as well as the types of employment insured. Within the parameters of the law, states are free to determine such issues as the amount and duration of cash benefits, conditions of benefit qualification, method of individual employer experience rating and related matters. As an important element, each state program reflects its unique economic and social conditions and each state has created programs tailored to its perceived short-term and long-term needs, including cyclical variations.

This state-federal partnership not only has met the needs of benefit recipients, but also it has greatly assisted states in meeting problems caused by economic downturns. In response, the Chamber opposes any efforts totally to federalize the current system by mandating federally dictated standards, i.e., national triggers or benefit standards, even though some of these initiatives greatly could benefit employers.

Financing the UC System

The UC system is financed by two payroll taxes--one federal and one state. The Federal Unemployment Tax Act (FUTA) is a nationwide payroll tax on employers, against which credit is allowed either for state unemployment taxes paid or for reductions in such taxes earned through experience rating. Virtually all costs of benefits for jobless workers and administrative expenses are financed by these payroll taxes. Currently, only four states collect additional employee contributions.

The Chamber supports the present form of UC financing because program costs are distributed equitably and provide employers with incentives to stabilize employment and to take an active interest in the program. Further, it supports the use of experience rating as the basis for establishing UC tax rates. This method of cost allocation promotes equity in UC financing and avoids socialization of program costs.

UC Benefits

Presently, states establish and maintain benefit duration levels and schedules, as well as eligibility criteria and work search requirements. The Chamber supports employer financing of regular benefits for the first 26 weeks of unemployment. Additionally, it supports funding of the permanent Extended Benefits (EB) program (50% state unemployment tax, 50% FUTA). However, these benefits must be provided only to eligible claimants--those temporarily and involuntarily unemployed.

The Chamber supported the important reforms made to the EB program in 1981. The reforms targeted the EB program to those in need of assistance. This targeting was achieved by: eliminating the use of a 4.5% nationwide "insured unemployment rate" (IUR) trigger; raising the state triggers by 1%; eliminating EB claims from IUR calculations; and limiting eligibility for EB to individuals who had worked at least 20 weeks or the equivalent.

Further Reforms Needed

In addition to the changes made in 1981, we continue to support the following concepts regarding benefits, qualifications, and duration of UC benefits. These are designed to provide temporary assistance to UC claimants and incentives to return to work:

1. As an incentive to return to work, benefits should provide a sufficient differential between the claimants' benefits and prior earnings.
2. States should review periodically (and revise if necessary) benefit schedules in light of changed conditions.
3. UC benefits should be paid to persons with a demonstrated attachment to the work force who are actively seeking employment, not to persons unemployed as a result of a labor dispute.
4. Prior to a claimant recovering EB, there should be a noncompensable one-week waiting period.
5. EB should not be allowed if the reason for termination of benefits was voluntary leaving, misconduct, failure to seek or accept work, etc.
6. EB should focus on helping claimants find new jobs and provide states with incentives to discontinue participation.
7. Claimants should be required to complete work search training programs as an eligibility requirement for EB.
8. Covered employers who are exempt from the FUTA should be required to pay the full cost of benefits attributable to service performed for them and make an appropriate contribution to the administrative costs.

9. Special federal unemployment benefits should be paid only at the same weekly rate and for the same duration as regular benefits. If special benefits must be paid, they should be limited to persons who agree to enter retraining programs.

Current UC/Dislocated Worker Legislation

This Subcommittee currently is considering legislative proposals designed to provide expanded services to dislocated workers. These proposals could affect directly and negatively the current UC system. They include H.R. 1690, which would establish a demonstration program permitting UC recipients to receive a lump-sum payment to pursue self employment, and H.R. 758, which would allow for UC payments to individuals voluntarily leaving a firm facing major employment reductions and entering a state approved training/retraining program.

H.R. 1690, sponsored by Congressman Wyden (D-Oregon), is designed to encourage the unemployed to pursue careers as entrepreneurs. This bill would allow eligible UC claimants to waive weekly benefit payments in favor of receiving a lump-sum settlement to establish a small business. Although an innovative idea, H.R. 169C stretches the bounds of the UC system. Under this bill, the unemployment insurance system would become the financier for small business expansion, which is a role it was never intended to have. This proposal for assisting the unemployed would violate the intent of UC benefits that provide assistance to workers facing temporary, involuntary unemployment--not individuals wishing to change their career. Further, employer UC taxes (both state and federal) provide weekly unemployment benefits to workers, not start-up funds for aspiring entrepreneurs.

Two fundamental principles of all entrepreneurial activities are the assumption of risk and individual sacrifice. Successful entrepreneurs are willing to invest financial and personal capital to establish and maintain new markets and services. This often involves risking life savings to finance such endeavors. But the decision is made by the individual who assumes the risk and makes the sacrifices in return for the rewards of success. H.R. 1690 violates these basic principles of entrepreneurship because under this bill society takes the risk and makes the sacrifice.

Further, H.R. 1690 jeopardizes the solvency of the UC system by providing unjustifed benefits. Most unemployed workers are reemployed prior to exhausting the 26-weeks of regular unemployment benefits. Therefore, why provide a lump-sum payment equal to 26 weeks when the worker may be reemployed in 6-8 weeks? This approach to providing UC benefits greatly increases taxes for employers and ultimately reduces benefits to UC claimants.

H.R 758, introduced by Congressman Stark (D-California), would use UC funds to provide accelerated benefits and training programs to individuals voluntarily leaving a firm facing a major reduction in employment. UC claimants could receive up to 125 percent of their regular benefits if enrolled in an approved training or retraining program. As a result, not only would payroll taxes likely increase dramatically due to increased benefits payments and the costs of providing new training and retraining programs, but also these programs would duplicate the successful JTPA program, which annually serves more than 175,000 dislocated workers.

The JTPA: A Proven Success In Serving Dislocated Workers

Since its creation in 1982, the JTPA has addressed the education, training, and retraining needs of millions of American workers. The JTPA continues a long-standing federal commitment to employment and training programs. The program is based on a partnership that harnesses private sector expertise, resources, and support to tailor publicly financed training programs to meet the needs of a community. The act gives maximum flexibility to local private industry councils; shifts administrative functions from the federal government to states; requires that 70 percent of all funds be spent on training; and establishes earnings gains and reduced welfare dependence as mandated measures of performance.

The JTPA funding is administered by the U.S. Department of Labor (DOL). Based on a federal funding formula, each Governor develops a statewide plan in association with the State Job Training Coordinating Council, comprised of one-third private-sector participants and chaired by a non governmental representative. For purposes of program delivery, each state is divided into service delivery areas that develop local plans in conjunction with local private industry councils (PICs). The PICs are composed of at least 51 percent business members and chaired by a non governmental representative. Annually, the JTPA spends more than $3 billion; provides education, training, and retraining services for nearly one million participants; and uses the resources of more than 3,000 private-sector volunteers.

An integral part of the JTPA program is services provided under Title III--training and employment for dislocated workers. Congress established a set of JTPA programs under Title III to address the needs of the structurally unemployed.

Dislocated workers face unique problems; often, they have not looked for employment for years. In some areas, they also may face a labor market with large numbers of unemployed workers with similar skills. As a result, the act reserves funds for the use of the Secretary of Labor to help states to assist these workers. To qualify for Title III funds, states must identify their need for assistance, a substantial group of eligible participants, and job opportunities for participant, and provide limited matching funds. For program year 1984, more than 175,000 dislocated workers participated in Title III programs, with 65 percent successfully placed in private-sector jobs paying an average wage of $6.20 per hour. By using the resources of the private sector, the JTPA programs are preparing unemployed workers for meaningful, long-term employment opportunities.

Conclusion

The Chamber strongly supports a UC system providing benefits to workers temporarily and involuntarily unemployed. It believes the current UC program fairly and promptly serves the needs of those workers and the employer community. It also recognizes the need to assist those workers facing prolonged unemployment. As a result, it supports the implementation of services provided by the JTPA. It further calls upon the DoL to report on the status of use of the JTPA Title III funds. According to the Office of Management and Budget, as of June 1984, the DOL reported $140 million unspent Title III funds. The Chamber realizes that a number of variables contributed to this situation; however, existing resources should be used before Congress experiments with new programs and funding sources.

The Chamber does not support an overhaul of the UC system to finance programs for dislocated workers. After a period of ever-increasing state trust fund debt and unemployment rates, many states are beginning to pay off federal debts and reach solvency. This is not the time to implement new programs that could increase tax rates and jeopardize the federal-state balance. Rather, it is time to provide incentives to reduce state debt and encourage remedies to improve the management and administration of UC programs.

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

ALBERT D. BOURLAND
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CONGRESSIONAL RELATIONS

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March 20, 1986

The Honorable Dan Quayle
Chairman
Subcommittee on Employment and Productivity
Committee on Labor and Human Resources
U.S. Senate
Washington, D.C. 20510

Dear Mr. Chairman:

The U.S. Chamber of Commerce, on behalf of its more than 180,000 members, appreciates your allowing us to comment on S. 1990, The Education and Training Partnership Act. The Chamber supports the public-private collaborative principles embodied in S. 1990 and commends your leadership in preparing this important legislation. However, we question the wisdom of creating a new federal agency at a time of severe budget constraints.

Purpose of S. 1990

The purpose of S. 1990 is twofold: first, to increase programmatic coordination for interrelated federal programs presently located within the Departments of Education and Labor; second, to increase private-sector involvement in the development and implementation of national employment and training policy. S. 1990 would establish a new independent agency within the executive branch. This agency would direct programs mandated in the Job Training Partnership Act, the Wagner Peyser Act, and the Carl D. Perkins Vocational Education Act. This new partnership would be headed by a nine-member Board of Directors comprised of five private-sector representatives and the Secretaries of Commerce, Education, Health and Human Services, and Labor.

Background

Since 1982, the Congress has made significant steps in improving the administration and program coordination of selected education and training programs. Beginning with the passage of the Job Training Partnership Act (JTPA), the Congress has enacted education and training legislation that recognizes three fundamental principles for success in this area: (1) the need for national programs to be responsible to state and local labor market needs; (2) the necessity of eliminating unneeded administrative and paperwork requirements; and (3) the paramount role that must be played by private-sector employers in determining state and local employment and training priorities. To a lesser degree, these same principles were also embodied in the Carl D. Perkins Vocational Education Act passed in 1984. Both the JTPA and the Perkins Act establish a workable framework for private-sector involvement in public education and training programs at the state and local government levels. However, both fail to provide a policy framework for private-sector involvement in national employment and training issues. The Board established under S. 1990 would fill this void.

Recent Success Stories

In testimony presented before the Senate Committee on Finance on September 17, 1985, Chamber Board member Frances Shaine stressed the importance of providing cost-effective training/retraining for workers and firms adversely affected by imports and the need to reduce and distribute more evenly the burden of economic adjustment.

The U.S. Chamber supported the passage of the JTPA and the Perkins Act. Judging from recent survey data released by the U.S. Department of Labor (DOL) regarding the JTPA, that support was well founded. According to data available for program year 1984, 940,000 disadvantaged youth and adults were served by the JTPA programs; more than 177,000 unemployed workers participated in the JTPA Title III dislocated workers programs (with 65 percent successfully placed in private sector jobs at an average wage of $6.20); successful placements received an average hourly wage of $4.61; and more than 3,000 business volunteers participated in the more than 500 local private industry councils. Without exception, all of these results are dramatic improvements over the predecessor to the JTPA--the much maligned CETA program.

Recommendations

The following recommendations were developed by the Chamber staff after preliminary consultation with the Chamber's Education, Employment, and Training Committee.

S. 1990 builds upon the momentum created by the JTPA and the Perkins Act and offers the private sector meaningful input into the national policymaking process. The Chamber supports this goal and offers the following comments for your consideration in finalizing S. 1990.

1. Any new federal initiative should be based on the principles embodied in the JTPA. Any national public-private partnership program must be responsive to the realities of state and local labor markets; be free of costly and burdensome administrative requirements and provide a meaningful role for private-sector participants. The JTPA represents a positive first step in the development of a comprehensive national policy on human resource development that must consider national vocational education initiatives and the employment service, along with state and local economic development strategies.

2. Any new national partnership program must have clearly defined roles and responsibilities, with corresponding goals and objectives. As presently constituted, S. 1990 does not address adequately these areas of Chamber concern. We recommend that the final legislation clearly specify that the federal role in this new partnership is limited to policy development, program planning, oversight, and monitoring. Establishing a competing agency to administer and operate ongoing programs would prove unproductive and possibly threaten the success of existing programs. Rather, the partnership should operate in the manner of a corporate board of directors, which recommends national policies and reviews programs and systems in a comprehensive, government-wide fashion.

3. Expand the Board of Directors to reflect linkage with economic development. By broadening the scope of the partnership to encompass the expanded view of human resource development and economic development, it would be critical to include the Secretary of Housing and Urban Development (HUD) and the Administrator of the Small Business Administration (SBA). Including HUD recognizes the need to link economic development and job creation with education and training programs at the state and local levels. Expanding the Board to include the SBA acknowledges the realities of future job growth/opportunities in the small business sector of the economy. Finally, although we have suggested expanding the size of the Board, it is essential that the private sector remain a majority. This representation should reflect the overall mix of businesses operating in this country. However, the Chamber believes that staff and budget for this new agency should be absorbed within the existing resources of the Department of Labor. Further, the activities are a logical extension of the current program of work for the Employment and Training Administration.

To continue the progress being made under the JTPA, the private sector must be an integral component of any new federal initiative. We stand willing to assist you and your staff in assuring that S. 1990 reflects this concern and receives proper consideration in the national debate on this issue.

Thank you for your consideration of our views, and we request that our comments be made a part of the hearing record. We look forward to working with you in the future.

Sincerely,

Albert D. Bourland

cc: Subcommittee Members
Betsy Brand, Staff Director
William A. Blakey, Minority Counsel